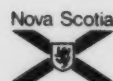


ADJUSTING TO THE CHALLENGE

Report of the Nova Scotia Adjustment
Advisory Council



July 1989



Nova Scotia

Province of
Nova Scotia

Nova Scotia



89-06373/

**Department of
Industry, Trade
and Technology**

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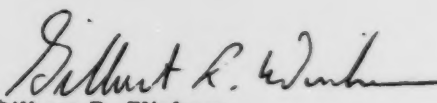
Our file no:

The Honourable John M. Buchanan, P.C., Q.C.
Premier of Nova Scotia

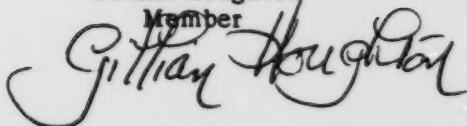
Dear Mr. Buchanan:

On January 21, 1988, you established the Nova Scotia Adjustment Advisory Council to examine the Adjustment issues produced by the Canada-U.S. Free Trade Agreement, and to make recommendations to government as to the programs that may be required to manage those issues.

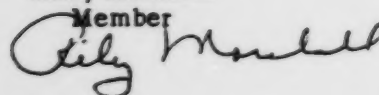
We, the undersigned members of the Council, are pleased to submit to you our report and recommendations.


Gilbert R. Winham
Chairman

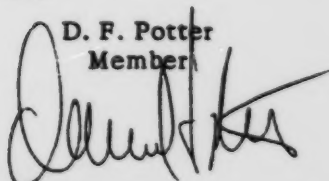
Gillian Houghton
Member



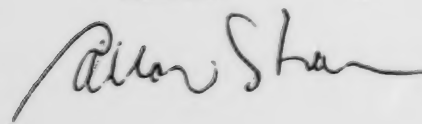
Riley Marshall
Member



D. F. Potter
Member



Allan C. Shaw
Member



Peter Wile
Member

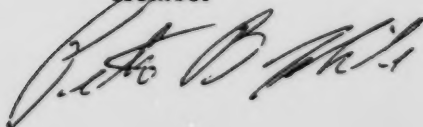


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PREFACE

On January 1, 1989, the Canada-U.S. Free Trade Agreement (FTA)—the most extensive trade agreement ever signed by Canada—went into effect. The FTA will present a challenge to all Canadians to adjust to a more competitive economic environment. Business, labour, agricultural producers, and governments will have to take the initiative to capitalize on the opportunities offered by this important Agreement.

The current economic climate is not good for Nova Scotia. The fishing industry has recently suffered a serious blow due to falling fish stocks. Cutbacks in the federal budget have affected the Atlantic Provinces through military closures and reduced funding for the Atlantic Canada Opportunities Agency (ACOA). Behind these immediate problems lies a long-predicted threat of economic recession in North America. These factors increase the importance of improving the competitiveness of Nova Scotia producers, and of adjusting rapidly to the opportunities and challenges presented by the Free Trade Agreement.

Foreign trade is a historic concern of Nova Scotians. In the past century, Nova Scotia was a major trading centre, and Nova Scotian products found their way to markets in New England, Great Britain and the West Indies. Today, trade continues to be of great importance to the Province. A previous White Paper on the economy, which noted that Nova Scotia's external sales as a percentage of provincial Gross Domestic Product was 40 percent in comparison to 29 percent for Canada as a whole, stated that Nova Scotia is one of the most trade-dependent areas of Canada.¹

The White Paper concluded: "The Government of Nova Scotia is committed to maintaining and strengthening its high priority on trade".²

¹Building Competitiveness: A White Paper on Economic Development, Halifax: Province of Nova Scotia, February, 1984, 10.

²Ibid, 27.

In keeping with its commitment to promote international trade, the Government of Nova Scotia appointed on, January 21, 1988 a "Nova Scotia Adjustment Advisory Council". Members of this Council included: Ms. Gillian Houghton, owner of the Duke of Argyle Art Gallery; Mr. Riley Marshall, formerly Vice President of Stanfields; Mr. Daniel Potter, Chief Executive Officer of Novatron; Mr. Bram Schwartz, prominent in retailing and small business; Mr. Allan Shaw, Chief Executive Officer of L. E. Shaw, Ltd.; Mr. Peter Wile, dairy farmer and Chairman of Voluntary Planning Agricultural Sector; Mr. Norman Williams, former Chief Executive Officer of Scotia Investments, Ltd.; and Dr. Gilbert Winham, Professor of Political Science at Dalhousie University. Mr. Schwartz retired due to illness. Mr. Williams commenced as Chairman and was succeeded by Dr. Winham.

The Terms of Reference of the Council were as follows: To examine the industrial adjustment challenge for Nova Scotia in the post-Free Trade Agreement years, including upside and downside impacts, and:

- a) to make recommendations for effective federal and provincial government adjustment initiatives for industries and workers; and
- b) bring Nova Scotia's adjustment problems and program needs to the attention of the Federal Advisory Council on Adjustment.

Concurrent with the appointment of the Nova Scotia Council, the federal government appointed, on January 11, 1989, an Advisory Council on Adjustment--under the chairmanship of Mr. Jean de Grandpré--to assess adjustment to free trade from the national perspective. The Federal Council presented its report on March 28, 1989.³ Part of the work of the Nova Scotia Council has been to assess to what extent the recommendations of the de Grandpré Report are appropriate to the circumstances of Nova Scotia.

³"Adjusting to Win" (Report of the Advisory Council on Adjustment) Ottawa: Government of Canada, March 28, 1989.

The Nova Scotia Council consulted widely in carrying out its mandate. It sent out 55 letters to businesses and groups inviting submissions, and it solicited written submissions with newspaper advertisements. It met with 45 representatives of business, industrial or farming associations and community groups, and also with 7 officials of the federal and provincial governments. Council members sought to ensure that anyone who had a concern for trade adjustment was given an opportunity to interact with the Council.

In conducting its deliberations, Council was especially mindful of two important concerns: to maximize the opportunities from free trade and to minimize the difficulties free trade might cause for some companies or groups. These concerns reflect the "upside" and "downside" impacts referred to in the Terms of Reference.

In the material that follows, upside concerns for labour and firms are especially addressed in Chapters 2 and 3, while downside concerns are reflected in Chapters 4, 5, and 6. Specific problems in the agricultural and industry sectors are dealt with in Chapters 7 and 8 respectively.

Council recognized, during its deliberations, that governments are already active in promoting upside and downside economic adjustment, and that it is important to use these activities as effectively as possible to the more specific task of adjustment to free trade. What Council has done is to review the existing programs of governments, and then make recommendations on how governments can facilitate adjustment to the Free Trade Agreement.

SUMMARY OF RECOMMENDATIONS

Training

1. Council agrees with the Advisory Council on Adjustment on the need for a national debate on the role of education in economic adjustment, and recommends an appropriate vehicle be established to review education/training systems in Canada. (Page 13)
2. Council recommends that the Nova Scotia Government should review educational curricula at all levels, as well as relevant government programs, with the aim of upgrading entrepreneurial and managerial skills. (Page 14)
3. Council recommends the proposed improvements in trades training and in the community college system outlined in the White Paper Foundation for the Future be implemented quickly and effectively. (Page 16)
4. Council recommends that federal and provincial agencies providing financial support to firms should scrutinize the human resource plan, including training components, as this relates to the total investment proposal and business plan of each applicant. (Page 17)
5. Council supports the training tax proposed in the de Grandpré Report, but recommends that the particular circumstances of small businesses be addressed should this proposal be carried out. (Page 17)

Export Opportunities

6. Council recommends that ISTC develop regional capability in the Halifax ISTC office to react to specific Nova Scotia industrial and sectoral adjustment situations. This would require both staff capability and regional authority to act independently in preparing market adjustment profiles and industry competitiveness profiles tailored to the Nova Scotia scene. ISTC should reflect provincial as well as national priorities. (Page 25)

7. *Council recommends that government should not develop programs which lack flexibility or are subject to narrow eligibility criteria. The private sector is already confused as to the existing array of federal and provincial market assistance programming and where to go for which type of specific assistance. Where new need areas are discovered, existing program eligibility criteria should be either broadened or refocussed to accommodate the identified shift in demand. (Page 26)*
8. *Council recommends a marketing and trade development agreement under the ERDA should be supported. A number of gaps (see page 24) have been discovered to exist in present federal and provincial market development programming which could be most effectively covered by a cost-shared agreement. (Page 27)*
9. *Council recommends strategic planning workshops should be set up at various locations throughout the province to provide practical information for Nova Scotia businesses on selling into the U.S. and international marketplace. (Page 29)*
10. *Council recommends that the Nova Scotia Research Foundation's advisory service capability be strengthened. (Page 30)*
11. *Council recommends that assistance be provided to companies to carry out technology audits to assess the technologies they use and the effectiveness with which they employ these technologies. A similar audit of a sample of corresponding U.S. companies should also be carried out to help to define any potential technology gap. (Page 30)*

Labour Adjustment

12. *Council recommends governments make diligent use of existing programs to facilitate labour adjustment to the FTA, in lieu of establishing new programs. (Page 38)*

13. Council recommends that some flexibility be introduced into the eligibility criteria of CJS streams in order to cover circumstances that may arise in adjusting to the FTA. (Page 39)
14. Council further recommends that governments carefully monitor future aggregate demand for adjustment assistance, and be prepared to increase funding in FTA-related CJS streams (such as the Continuing Employment Option) if that demand increases sharply. (Page 39)
15. Council recommends the Government of Nova Scotia finalize a POWA agreement with the federal government as soon as possible. (Page 40)
16. There is legislation (the Industry Closing Act, Labour Standards Code) that requires advance notice for plant closures to government and employees, respectively. The Council recommends that provincial legislation be brought into line with the above recommendations or, alternatively, to whatever national standards and funding mechanisms emerge from ongoing federal/provincial consultations. (Page 43)

Business Adjustment

17. Council recommends governments make use of existing programs to finance FTA adjustment, especially the Business Capital Corporation and the Special Assistance Program of DITT, in lieu of creating new government programs. (Page 49)
18. Council recommends governments should assure, consistent with other priorities, that existing adjustment programs are sufficiently funded to meet FTA adjustment requirement. (Page 50)
19. Council recommends government make use of various guidelines, and the guidelines for industrial aid in the White Paper on Economic Development, in assessing requests for financial assistance in connection with FTA adjustment. (Page 52)

20. Council recommends that government officials should be aware of the possible countervail implications of government assistance, and should implement assistance programs in a manner that minimizes the risk of countervailing duty actions against Nova Scotia exports. (Page 52)
21. Council recommends that the 1989 reductions in federal funding should be restored to the ACOA budget, and that the ACOA Action Program should be reviewed to ensure its operations are consistent with adjustment to the FTA. (Page 53)
22. Council recommends that the federal and provincial governments carefully review their tax treatment of R & D and capital modernisation to ensure that domestic industry is not placed a competitive disadvantage or discouraged from making investment of this nature. (Page 54)

Adjustment of Communities

23. Council notes the importance of flexibility in providing for community economic adjustment, and recommends that the Community Futures Program be administered with greater flexibility to allow the program to extend beyond three years where needed and to permit alternatives beyond the seven specified options to be put in place. (Page 60)
24. Council, recommends the provincial government expand the advisory service capability of the Community Economic Development Branch of Small Business, and that governments insure that municipal units are more directly involved in the implementation of Community Futures plans. (Page 60)
25. Council endorses the recommendation of the de Grandpré Report that the federal government should be prepared to expand the Community Futures Program as needed. (Page 60)

Agriculture

Chicken/Turkey Industry

26. The provincial governments and federal agencies in the Atlantic Region should aggressively press Ottawa to reverse the erosion in feed cost competitiveness which has been exacerbated various restrictions.

A reduced cost spread between regions would improve producer confidence and permit pragmatic marketing and investment strategies. (Page 66)

27. Governments should closely monitor the domestic market situation relative to growth in demand, import penetration and protection costs. (Page 67)

28. In light of the need to bolster confidence in these commodity groups, the provincial government should consider making a buy-out and stabilization program commitment to farmers that provides an "insurance policy" against the worst case scenario put forward. The schemes which are developed should, however, be compatible with levels of support and benefits provided to other community groups. (Page 67)

29. The Council has not chosen to recommend specific measures for poultry meat processing operations as their cost competitiveness requirements are similar to those of other processors and manufacturers (and dealt with generically in Chapters 4, 5, and 7). (Page 67)

Egg and Pullet Industry

30. The provincial government should consider making a commitment on a conditional buy-out program. The program should only address any surplus problem directly associated with the FTA and be in line with measures taken to cover other poultry commodities. (Page 69)

31. The provincial government should press the federal government to eliminate the restrictions that result in non-competitive feed costs. (Page 69)

Milk/Dairy Industry

32. The provincial government should closely examine the implications of various trends and specifically evaluate:

- . the two-price or multi-price system approach
- . various MTN scenarios
- . the loosening of import quotas and embargoes (due to GATT)

(Page 71)

33. The provincial government aggressively challenge the various restrictions (eg. feed costs, foreign shipping) imposed upon agriculture in Nova Scotia, the easing of which would lower costs and better enable the dairy sector to take pragmatic approaches to any future challenges and to endure any negative shocks in the future. (Page 71)

Greenhouse Growers

34. The provincial government should urge ACOA to review their programs and the eligibility status of the various industries in this agricultural sector for assistance to modernize and improve production facilities and methods. Particular attention as well should be given to improved training programs. (Page 73)

Specific Industry Concerns

Textile/Clothing

35. Budgetary cutbacks in ACOA should not be allowed to reduce assistance or make ineligible capital projects and studies required by industries likely to be directly affected by the FTA. (Page 78)
36. The provincial government should monitor the future situation in the textile/clothing industry and, consistent with the guidelines established in Chapter 5, should consider proposals by firms to improve productivity and take advantage of market opportunities. (Page 78)

37. *The provincial government should closely monitor the Canadian International Trade Tribunal process and assume an advocacy role on imported inputs to ensure Nova Scotia's interests are put forward and recognized. (Page 78)*
38. *The provincial and federal government agencies should continue to make the retention of Atlantic Freight Rate Assistance a particular development priority. (Page 79)*

Wineries

39. *The provincial government should consider establishing a commercial wine policy, consistent with current international agreements, that would give wineries in Nova Scotia greater flexibility in marketing product. Any other support should be based on generally-available programs, and should be consistent with the guidelines specified in Chapter 5. (Page 81)*
40. *The provincial government should engage in negotiations on interprovincial trade barriers with the objective of an equitable, reciprocal access situation, either across Canada or within the Atlantic Region. (Page 81)*

Duty Remission

41. *The provincial government should urge the federal government to eliminate duties on specific imported (offshore) inputs, such as canning metal, which are essentially unavailable in Canada, or if produced in Canada,:*
- . fail to meet reasonable specifications*
 - . are not readily or consistently available*
 - . are not competitively priced.*
- (Page 82)*

CHAPTER 1

APPROACH TO ADJUSTMENT

ADJUSTMENT AND COMPETITIVENESS

The international trading environment has been undergoing major changes in the past two decades, and as a result, attention in Canada and other industrialized countries has increasingly focused on the issue of economic or industrial adjustment. It is now generally accepted that how well economies adjust to changing circumstances is one of the key determinants of their overall economic performance and future prospects. Organizations such as the OECD have suggested that industrialized countries have not adapted quickly enough, and governments should do more to promote "structural adjustment"--that is, the ability of individuals, enterprises and institutions to respond to change by exploiting new opportunities and moving away from declining sectors.

As a country dependent on trade, Canada has been buffeted by the same events and trends as other countries. These events all require economic adjustment. They include:

- . rising competition from Japan and the newly-industrializing countries*
- . rapid technological change*
- . fluctuating exchange rates*
- . past energy crises*
- . GATT and trade liberalization*
- . cyclical markets for resource and resource-based products*

The signing of a far-reaching Canada-U.S. Free Trade Agreement has renewed and intensified interest in the issue of adjustment. Many interest groups have expressed concerns about the commitment of governments to deal with downside effects, especially plant closures and farm insolvency. For many people, the impact of the FTA has become the dominant adjustment issue, although clearly adjustment is an ongoing problem facing any dynamic economy.

Adjustment is very much a matter of maintaining competitiveness. Government can promote competitiveness by maintaining appropriate framework policies, such as education and training, appropriate rules governing labour/management relations, laws governing business relations, and so forth. Government can also assist in a limited manner through sector-specific policies targeted at individual industries.¹ However, in the long-run achieving competitiveness is largely a task for private industry.

In Nova Scotia, competitiveness was the theme of the 1984 White Paper on Economic Development. The White Paper stated:

"Improved international competitiveness is the key to raising aggregate production. Only if individual firms are able to compete with imported products and sell their products in markets outside the province, will they be able to grow and prosper....

*Competitiveness is the key to achieving the aim of the province's development strategy. It must be the goal of firms if they are to be successful in the highly specialized and interdependent world that will characterize the business environment of the future... The provincial government believes that policies and programs that assist the private sector to be competitive are the most effective means of achieving economic progress."*²

The White Paper emphasized the development of labour and management skills, technological innovation and trade as well as a better defined, less interventionist role for government in the economy.

¹Managing Adjustment: Policies for Trade-Sensitive Industries. A Statement by the Economic Council of Canada, 1988.

²Building Competitiveness: A White Paper on Economic Development. Province of Nova Scotia, February, 1984, p. 15.

ERRATA

Please note the following correction to page 3 of the report, "Adjusting to the Challenge", Report of the Nova Scotia Adjustment Advisory Council, July 1989.

The number of firms starting up and disappearing each year, as drawn from the de Grandpré Report, should read 136,000 and 109,000 respectively, rather than 136 and 109 respectively.

The section should read:

- *Canada's economy is already characterized by rapid adjustment, with 4 million employees changing jobs annually; and with 136,000 firms starting up and another 109,000 disappearing each year. This adjustment has successfully absorbed changing economic conditions in the past, including trade liberalization, exchange rate fluctuations and technological developments.*

FEDERAL COUNCIL REPORT

At the federal level, concern for adjustment to the FTA led to the establishment of the Advisory Council on Adjustment. The de Grandpré Report "Adjusting to Win" is the most important of recent Canadian efforts to deal with this issue. The Report clearly goes beyond an assessment of the FTA to view adjustment as a global process that is affecting the entire industrialized world.

The Report stated:

"Canada's adjustment to the FTA is just part—though a significant part—of a larger adaptation that must be made to changes in the world-wide economic environment. Even if the FTA did not exist, Canada would still face the need to adapt to an emerging world in which technology innovation and an increasingly well trained and well educated workforce are the keys to survival and success."³

The facts presented in the de Grandpré Report include the following:

- Canada's economy is already characterized by rapid adjustment, with 4 million employees changing jobs annually; and with 136 firms starting up and another 109 disappearing each year. This adjustment has successfully absorbed changing economic conditions in the past, including trade liberalization, exchange rate fluctuations and technological developments.
- Canada has a poor record on research and development, with R & D expenditures only half that of leading industrialized countries. Canada lags in term of adaptation of new technology such as computers and process automation, and companies in-house technological and management skills.

³Adjusting to Win. Report of the Advisory Council on Adjustment, Government of Canada, March 1989 (page xvi).

- *Canada lacks a training culture comparable to other industrialized countries reflected in the fact that training is only done by one in four companies, mostly in growth sectors. In tackling unemployment, Canada relies heavily on the "safety net" approach with 75 percent of funds spent on income maintenance measures and only 25 percent spent on employment promotion or training.*

From these facts and others, the de Grandpré Report concluded:

- *Adjustment to the FTA is no different from adjustment to other changes in the economy; and to attempt to give special assistance to workers or firms who claimed to be injured by the FTA would be unworkable and unfair.*
- *The main responsibility for adjustment to the FTA lies with the private sector itself.*
- *Government should stimulate development of a training culture in Canada; that is, it should pursue the "trampoline" of continuing education and training instead of the "safety net" of programs aimed at income maintenance. The recommendations for promoting the "trampoline" included a training tax on firms, and a greater use of the training component of UIC.*

ADJUSTMENT IN NOVA SCOTIA

How well do the conclusions of the de Grandpré Report relate to Nova Scotia? The Report was designed for the whole country, but there are important differences between Nova Scotia and the more affluent provinces of the country. These differences must be kept in mind in applying adjustment policies.

Nova Scotia's economy is characterized by communities lacking industrial diversification and depth, small scale and undercapitalized indigenous enterprises, and higher operating costs, especially due to high energy and transportation costs. Distances to major markets are a serious impediment to expanded exports. Economic burdens on government are higher, due particularly to an unemployment rate higher than the Canadian average. The result of these factors is that there is a greater reliance on government as a direct employer, program deliverer, procurer, and sectoral overseer in areas such as fishing, agriculture and transportation.

Compared to Canada as a whole, Nova Scotia has more limited capacity to absorb strong economic shocks, to take advantage of market opportunities, to respond rapidly to competition and to replace lost jobs. This places greater pressure on Nova Scotia to avoid the downside in adapting to changing economic conditions. Whereas the loss of an individual firm in a large urban area might be compensated by the start-up of new firms, in Nova Scotia there are fewer alternatives. As a result, government may need to assist the private sector more than might be appropriate elsewhere in the country.

Regarding labour, the "trampoline" will work best in dynamic economies like Southern Ontario's where properly equipped workers can change employment relatively easily. In Atlantic Canada, more limited job opportunities, generally, as well as population, demographic, and employment patterns require a greater safety net component which is responsive and sensitive to regional and area problems. The UI qualification period, for example, continues to take regional variations into account to avoid hardships.

For these reasons, the Nova Scotia Council cannot accept all of the recommendations of the de Grandpré Report without qualification.

However, Council does support the de Grandpré Report on many particulars. Council agrees that adjustment to the FTA cannot be separated from adjustment to other economic changes. Economic adjustment is economic adjustment, and government should not be expected to give preferential treatment for adjustment to one factor over another. For example, the Nova Scotia fishing industry is currently facing a major problem of retrenchment and adjustment which is not related to the FTA. It would be unfair not to consider this problem of adjustment on an equal footing with adjustment to the FTA.

The Nova Scotia Council concurs with the de Grandpré Report on the importance of education as the prerequisite for an adaptive economy. Council also supports the need to develop and improve the training culture in the province. The responsibility for education, and training of the unemployed, rests with government, while the responsibility of training employed workers remains largely with companies. Labour also shares an obligation to improve its economic performance. Council feels government, labour, and the private sector must increase their commitment to improving the training culture in Nova Scotia.

The Nova Scotia Council accepts the argument of the de Grandpré Report that economic adjustment is primarily the responsibility of the private sector. Council believes that the objectives of firms should be to provide the steadiest work possible consistent with the highest levels of productivity, and to avoid wherever possible cycles of boom and bust, and resulting lay-offs. This approach accepts the obligation of management toward labour to provide permanent employment, but it also accepts the obligation of labour toward management to utilize new technology as efficiently and productively as possible. This approach is already practised by some important Nova Scotia firms, and it is consistent with some of the successful aspects of Japanese business culture.

Finally, Council accepts that government has an important role in promoting economic adjustment. For labour, government has an obligation to improve the productivity of the workforce through education and basic training, and to cushion the effects of economic downturn, particularly for groups such as older workers that have the greatest difficulty adjusting to changing circumstances.

For business, government has an obligation to create the conditions that will assist firms to be efficient and competitive, but it should not prop up uncompetitive companies nor engage in long, substantial bail-outs of firms facing long-run difficulties.

And for communities, government has an obligation to work with local leaders in economically disadvantaged areas to build a vibrant commercial infrastructure and to promote economic development.

CHAPTER 2

TRAINING

INTRODUCTION

The importance of training for the successful adjustment of Nova Scotian businesses and industries to free trade cannot be overemphasized. The de Grandpré Report identified training as the key element to promoting employment in Canada and an integral part of what it calls the "trampoline" option. Training is essential if workers are to take advantage of the opportunities of the FTA.

This chapter will focus on the subject of education and training as it equips people to enter, upgrade and change employment and provides firms with the skills necessary to function efficiently. In both instances, training is recognized as vital in allowing individuals and enterprises, and therefore the economy, to achieve their potential in an increasingly competitive and technological world.

Various trends have brought the importance of training to the fore in recent years. First of all, technology is driving economic change at an accelerating pace and restructuring the workplace. For example, Economic Council of Canada projections indicate the proportion of workers in most sectors to be affected by computer technology will double or triple between 1985 and 1990.

Secondly, the shift of economic activity and growth to the service sectors has affected the occupational mix and, as a result, the nature of skills required. It is predicted that between 1989 and 2000, almost one half of the new jobs will require five years of combined education and training beyond high school.

Despite relatively high unemployment rates, the Atlantic Region shares the total Canadian problem of skilled manpower shortages. The Canadian Labour Market and Productivity Centre, in a survey of manufacturers, learned that shortages of skilled staff is their primary problem, outranking all other difficulties. In regular membership polls done by the Canadian Federation of Independent Business, the shortages of skilled labour has ranked among the top concerns.¹ In the most recent poll, 42% of the Nova Scotia membership showed this concern.

In Atlantic Canada, there is a widespread consensus that skills and skills training will be the most important determinant, and in fact a prerequisite, for achieving high rates of economic growth and significantly reduced unemployment. In fact, a history of prolonged unemployment and low skilled jobs has left, for the most part, an undertrained and inexperienced workforce and a lack of entrepreneurs.

The federal government is the primary source of funding for adult training programs in Atlantic Canada, with provinces having overall responsibility for education, training, and certification matters. The private sector is largely responsible for on-the-job training. How well are governments and the private sector doing in Nova Scotia to ensure the work force is appropriately skilled and well-trained to meet the challenges ahead? Are new programs needed? It is necessary to inquire what the private sector and government are already doing about training before making recommendations.

¹Canadian Federation of Independent Business, "Our Members' Opinions Results, 3rd Quarter, 1982 through 4th Quarter, 1988." (Toronto, 1983-1898).

REVIEW OF PRIVATE SECTOR AND GOVERNMENT TRAINING PROGRAM

Private Sector

For successful enterprises, training is vital in order to increase productivity, improve quality, improve the competitive position of the company and provide a basic understanding to an employee of how the company operates. As a result, many employers provide some form of training with on-the-job training the primary and most favoured method used due to flexibility, effectiveness and cost. Most of the total corporate training cost in Canada, however, is incurred by a relatively small number of firms, predominantly in capital-intensive, growth sectors.

Sources of external training include public and private training institutions, suppliers of equipment and trade shows. Employers will tend to use outside resources when they have positive experiences and lack in-house facilities. Considerations include location of training, cost, content, timing, duration, and flexibility in accessing training. Training in management skills is often externally sourced. According to the Canadian Federation of Independent Business, the majority of smaller firms cover training costs themselves without government assistance. Many Nova Scotia companies, in fact, send employees out of province and Canada for specific training requirements.

According to a study sponsored by ACOA in late 1988, employers and unions in Nova Scotia are more aware and supportive of private training courses than those offered by provincial institutions. The former have grown rapidly in the past two to three years with nearly 60 private training schools now in operation.

A similar phenomenon has occurred at the national level in large part due to an overall shift in Canadian Jobs Strategy (CJS) funding away from public institutions (38% decline over three years in federal/provincial training agreements) to private sector training programs. According to the Canadian Labour Market and Productivity Centre, the number of Canadians enrolled in government sponsored training programs fell by 42% in 1987-88. In Nova Scotia, the underdevelopment of private training resources has meant that CJS funds for private training have, at times, been underutilized coincident with institutional seats being cut back.

Federal Government

On the federal government side, all of the available training programs fall under the Canada Jobs Strategy (CJS) administered by the Employment and Immigration Commission (EIC). These programs are the main source of training assistance funds in the Atlantic Provinces covering both employed and unemployed workers and with emphasis on the latter. The Skill Investment Program, Skill Shortage Program and Coordinating Groups (known as Regional Industrial Training Committees in Nova Scotia) are the CJS streams which deal with the training of the currently employed (including apprentices). These account for 17.5% of forecasted 1988-89 CJS spending in Nova Scotia.

Federal government programs for training are examined in Chapter 4 of this Report. The reason is that, with the exception of some programs like Skill Shortages, the focus of the CJS tends to be on the social rather than the economic side of adjustment. Federal government policy regarding training is generally aimed at supporting those individuals deemed to be most in need of assistance. Those individuals include unemployed as well as employed workers in situations where jobs are threatened by changing technology or markets.

Provincial Government

A long-standing arrangement between the federal and provincial levels of government is that the federal government financially supports technical and trades training undertaken by the provinces. Provincial training facilities are actually subdivided into technology or technological, and trades training. They are administered by the Nova Scotia Department of Advanced Education and Job Training.

Technical and/or technological training programs, which are handled by specific institutions like the Nova Scotia Institute of Technology, the Nova Scotia College of Geographic Sciences, the Nova Scotia Agricultural College and the Technical Campus of the University College of Cape Breton, have standards of admission and graduation much like those of a university. The institutions are widely recognized for providing a high level of technical and technological training in Nova Scotia.

Trades training to become, for example, a millwright, heavy duty mechanic, welder, or marine fitter, is handled primarily by provincial institutes. Vocational schools or, as they are now called, community colleges, are scattered throughout the province. There are 16 schools in all.

In order to promote private sector training, the provincial government maintains a Nova Scotia Training and Employment Program (NSTEP). The program pays a wage subsidy to employers willing to hire and train new employees for lower level skills. NSTEP provides financial assistance up to \$2.00 per hour for a maximum of 20 weeks. Eligible employees must have no more than 50 employees and less than \$2 million in sales.

ANALYSIS AND RECOMMENDATIONS

Education

The de Grandpré Report identified training as the key element in promoting economic adjustment in Canada, but it also highlighted basic education as a prerequisite to advanced training. Canada's record on basic education is not good. The Federal Council reported that one in four adults in Canada is functionally illiterate, and that about 30 percent of students leave school before completing grade 12. The result of illiteracy and early school-leaving is that many adults do not have the basic skills needed for training in the workplace of the 1980s and 1990s.

By most criteria, Nova Scotia has a sound educational system, yet it suffers from some of the same problems identified in the de Grandpré Report. These problems - functional illiteracy and poor math skills - are an especial burden in an economy like Nova Scotia's. Nova Scotia is not in the industrial heartland of Canada, nor is it likely to have a large industrial base. An important part of Nova Scotia's adjustment to the economy of the 1990s will have to come from small scale, entrepreneurial firms in light manufacturing and knowledge-based service industries, and especially those oriented toward Nova Scotia's maritime environment. For these industries, a highly educated and motivated workforce is essential.

The de Grandpré Report has called for a national debate on the role of education in the economy, and has suggested a royal commission might be established to review education/training systems in Canada. The economic importance of basic education is as important - if not more important - to Nova Scotia as it is to the rest of the country.

Therefore, Council agrees with the Federal Advisory Council on Adjustment on the need for a national debate on the role of education in economic adjustment, and recommends an appropriate vehicle be established to review education/training systems in Canada. (Recommendation 1)

A further problem of education is attitudinal. Council feels education systems at all levels should do more to establish a culture of entrepreneurship in the students it is producing. At the secondary level, more effort should be made through regular coursework and special projects to emphasize entrepreneurship and innovative initiatives. Council looks with favour on imaginative concepts like the Shad Valley Program, conducted by the Canadian Centre for Creative Technology of Waterloo, Ontario. The Program is sponsored by the private sector, and consists of a 10-week experience for grade 12 students designed to promote the highest levels of achievement in engineering and entrepreneurship.

At the post-secondary level, entrepreneurship or managerial skills are normally covered in university schools of business or administrative studies, specialized institutes, community colleges, or MBA graduate programs. Council notes that business schools have, in the past, been criticized for their perceived orientation to corporate needs as opposed to small enterprises and entrepreneurial capabilities. Regarding business schools in Nova Scotia, there is anecdotal evidence to suggest that the multiplicity of business schools and lack of prominence of any has contributed to local firms hiring managers from outside the province. Related to this, Council notes that there is a lack of qualified marketing consultants in Nova Scotia. Given the importance of export marketing, Council believes that more emphasis should be placed upon developing international marketing skills and establishing programs geared toward this.

Finally, at the level of government programming, Council feels there is a need for governments to do their part to perpetuate an entrepreneurial culture that might be more fully developed through the education system. Agencies like ACOA and provincial departments should continue to explore and experiment with the nurturing of entrepreneurial and related skills both within and outside institutional settings.

Therefore, Council recommends that the Nova Scotia Government should review educational curricula at all levels, as well as relevant government programs, with the aim of upgrading entrepreneurial and managerial skills.
(Recommendation 2)

Trades Training

Improving the calibre of trades training is important in any overall strategy of economic adjustment. However, as noted by the Nova Scotia Royal Commission on Post-Secondary Education (1985) and as confirmed in field research conducted by this Council, many individuals and businesses are critical of trades and service sector training in Nova Scotia. What are these criticisms and what can government do about them?

One criticism of vocational schools, or community colleges, is that they have insufficient interaction with industry. Nova Scotia employers complain that the colleges are slow to respond to equipment and practices currently used in industry, and that some instructors may be out of contact with the industries they service. A further problem is a mismatch between the persons allowed into training programs versus the number of potential jobs available. These criticisms have been further substantiated in a recent ACOA study on training in the Atlantic Provinces.²

²A Study on the Need, Provision and Take Up Training and Skills Development in the Atlantic Provinces, ACOA, February 1989.

A second criticism is that community colleges are operated like universities on the basis of daytime instruction during the academic year, which creates a schedule that is too inflexible for trade training. A third criticism is that standards for admission and graduation in provincial institutes are extremely low. Many argue that the provincial training system has become a place for less accomplished students who either have not finished secondary school or are unable to attend university. Because trades and service sector jobs nowadays require a much higher calibre, it is felt that the qualifications of graduates may be questionable. This problem is compounded by the fact that provincial institutions receive funding based on enrolment, which encourages institutions to increase the number of students regardless of their prospects for finishing a training program.

Many of these criticisms have already been addressed. With the release of its White Paper in February, 1988, entitled Foundation for the Future, the Department of Advanced Education and Job Training has replaced the old vocational school system with a new community college system, that is supposed to change the nature of trades training in provincial institutions.³ First of all, community colleges, according to the White Paper, will not only have "operational flexibility" where courses can be scheduled in the mornings, afternoons, evenings, weekends, or summers, but also receive funding based on a "program-by-program cost" formula where each institution's operating budget will be based on the average provincial cost of each of the programs taught at the institution.

³Foundation for the Future, A White Paper on a Community College System for Nova Scotians, Province of Nova Scotia, February, 1988.

In addition, the community college system will devote more time to "staff development" where instructors will be encouraged to remain informed about the latest developments in their fields, obtaining further knowledge either through the workplace or at educational institutions. This way instructors will also keep abreast of the changes occurring in their respective trades. As well, standards in community colleges will be maintained, according to the White Paper, because students will be brought up to the level of the required standards (instead of vice-versa) through "upgrading". Consisting of three types, "upgrading" students will mean improving their educational competency, filling in their education gaps, or training specifically for students with learning disabilities. Moreover, there will be Standards Committees in each subject which will ensure that courses also maintain a defined standard.

Finally, through the White Paper, better counselling for students and greater rapport with private industry received much emphasis. In each college, Community Educational and Training Officers are to work with local employers and others to develop customized courses. Good counselling is often the key to a well-trained individual. Counselling ensures not only that instructors remain in touch with developments in their fields, but also that graduates are better qualified and indeed more likely to obtain employment. Good counselling is the key to a well-trained individual, and interaction with private industry is necessary for the process to work effectively.

Council applauds the changes proposed in Foundation for the Future for ensuring better trades training in provincial institutes. However, it is imperative that these proposals not result simply in changes in name only. Many individuals and businesses remain skeptical about any substantive changes taking place.

Therefore, the Council recommends the proposed improvements in trades training and in the community college system outlined in the White Paper Foundation for the Future be implemented quickly and effectively. (Recommendation 3)

Government Assistance

Federal and provincial agencies currently provide financial and other support to promote adjustment in the private sector in Nova Scotia. This support is examined in Chapter 5. Council feels that this support offers an opportunity to governments to emphasize the importance attached to training in the workplace.

Therefore, Council recommends that federal and provincial agencies providing financial support to firms should scrutinize the human resource plan, including training components, as this relates to the total investment proposal and business plan of each applicant. (Recommendation 4)

Private Sector

Ultimately, Council recognizes that the level of training in Canada largely depends on the performance of the private sector in providing on-the-job training for Canadian workers. To motivate private sector training initiatives, the de Grandpré Report proposed a training tax on firms; that is, a corporate tax liability of 1% that would be offset completely if a firm provided a base level of training for its employees. The Nova Scotia Council supports this proposal of the Federal Council, but notes that the proposal may be more appropriate for larger than smaller firms, in that the latter have fewer alternatives for deployment of their labour force. Furthermore, Council notes that the training tax may further increase the amount of government paperwork required of small firms.

Therefore, Council supports the training tax proposed in the de Grandpré Report, but recommends that the particular circumstances of small businesses be addressed should this proposal be carried out. (Recommendation 5)

CHAPTER 3

EXPORT OPPORTUNITIES

INTRODUCTION

Changes in the international trading environment have forced a new reality on Nova Scotia. A small province with a long trading history cannot afford to ignore the competitive pressures inherent in this new global marketplace. Several international market trends, such as competition from Japan and newly-industrializing nations, pose particular challenges for Nova Scotia.

It is clear that trade is of crucial importance to the economic well-being of the province. To put it in perspective, the total value of Nova Scotia's external sales of goods and services to foreign destinations and to other provinces was estimated to be \$5.2 billion in 1988. Over 73% of the province's goods exports are destined for the U.S. market. In order to take advantage of the opportunities opened up by the FTA, the challenge facing the province is to:

- . Diversify into profitable new markets and market niches*
- . Increase the marketing sophistication and export capabilities of Nova Scotia businesses*
- . Achieve, wherever practicable, replacement of imports with Nova Scotia products and, generally, broaden the product and service range offered*
- . Ensure that the support services and facilities related to the movement and exchange of goods and services reinforce Nova Scotia's marketing and promotional efforts.*

Both the federal and provincial governments maintain a wide variety of programs to assist businesses in Nova Scotia to increase exports, which are described in the following section.

REVIEW OF GOVERNMENT PROGRAMS

Department of External Affairs

The Department of External Affairs is the main federal department offering export support services and programs.

1. Program for Export Market Development (PEMD)

PEMD, aimed at small to medium-sized companies, is designed to share the risk between the government and the exporter. It is a financial assistance program paying up to 50% of expenses for export market exploration costs such as:

- . foreign trade shows*
- . missions to foreign countries*
- . project bidding*
- . establishing of permanent sales offices abroad (excluding the U.S.A.)*
- . special trade activities related to food, agriculture and fish*

PEMD contributions are repayable if sales result from the activity being supported. If there are no sales, pay-back is waived.

2. Investment Development Program (IDP)

The IDP focuses on investment promotion events; seminars on the Canadian business and investment climate and on targetted Canadian industrial interests and capabilities; ministerial visits and speeches; investment information booths and advertising placements to promote investments in priority sectors. The ultimate objective of the Program is to encourage investment decisions resulting in the establishment or expansion of operations in Canada and to raise the awareness of Canada as a profitable economic partner.

3. New Exporters to Border States (NEBS)

NEBS covers educational trade missions designed to provide practical information about exporting to companies that want to sell their goods/services abroad but lack sufficient experience or knowledge. On a typical NEBS mission, potential exporters are exposed to customs brokers, U.S. customs agents, lawyers, bankers and collection agents.

4. International Trade Centre Services (ITC's)

ITC's were set up in an effort to improve the delivery of federal services related to export trade and to make trade activities more visible.

The idea is to provide comprehensive export support services including export counselling, the provision of market opportunity information via the WIN Exports computer system and the administration of PEMD. The regional offices of the Export Development Corporation (EDC) and the Canadian International Development Agency (CIDA) are to be relocated to ITC's.

Export Development Corporation

The Export Development Corporation (EDC) has two main financing programs:

- i) Export Financing facilitates and develops Canada's export trade by providing financing to export buyers. Funds are disbursed by EDC to Canadian exporters on behalf of the buyer, in effect providing the exporter with a cash sale.
- ii) Export Insurance facilitates Canada's export trade by protecting Canadian companies against losses caused by non-payment of foreign buyers and against risks to new Canadian investment overseas.

Department of Industry, Science and Technology Canada (ISTC)

The federal Department of Industry, Science and Technology maintains the following programs:

1. Sector Competitiveness Initiatives

ISTC, particularly on a national basis, undertakes competitiveness analyses on select industry sectors which could potentially be subject to FTA adjustment consequences. Examples include auto parts, medical devices, fisheries and re-manufactured wood products. The department also provides more generalized sector profiles and competitiveness profiles on sectors and companies.

2. Strategic Technologies

This provides assistance to support alliances among companies to undertake research and development in order to create technological capabilities and position Canadian firms to capture future markets in a variety of industrial sectors.

3. Technology Outreach Program

This provides assistance to technology centres to improve the productivity and competitiveness of Canadian industry especially among small and medium-size businesses.

Department of Industry, Trade and Technology (DITT)

In Nova Scotia, the provincial Department of Industry, Trade and Technology has recently reorganized and expanded its trade programs to assist companies in export development activities. The programs have been grouped together under one overall program entitled BUSINESS FUTURES, which is comprised of the following six components:

1. Trade Planning

This provides up to 75% funding on approved projects to retain consultants for assessing such aspects as marketing, productivity, manufacturing and technological innovation as well as the purchase of marketing information.

2. Trade Promotion

This provides grants to defray costs incurred by participating in government-initiated trade events, such as trade shows and missions, on a per-event basis.

3. Trade Expansion

This provides grants to defray costs of company-initiated trade/marketing efforts outside the Maritimes. Assistance is available for participation in trade shows, to conduct market identification investigations, to attend market education seminars and to host incoming buyers. Assistance is limited to \$2,500 per company per year.

4. Trade Opportunity

This may provide 50/50 cost sharing on upfront costs ranging from \$20,000 to \$100,000 directly associated with developing new markets. Assistance is limited to one project per year and is fully repayable to the province.

5. Product Development

This encourages the development of new innovative products, packaging and marketing literature for export. The program offers 50% of eligible consultant fees, to a maximum of \$7,500, for product development projects; and 50% of eligible consultant fees, to a maximum of \$2,000, for packaging and marketing literature. In-house costs are not covered by the program.

6. Industrial Adjustment

This assists companies to identify and pursue new export opportunities. Assistance is provided for strategic planning and market development projects. Industrial adjustment offers up to 75% of approved costs depending on the scope and complexity of the individual project and is limited to one project per year.

Department of Small Business Development

The Nova Scotia Department of Small Business Development is also involved in promoting exports, and it maintains the following programs:

1. Women's Business Development Program

A maximum grant of \$1,500, up to 75% of the project is available to a female business owner, or key employee of a female-owned business, excluding professional services, non-profit operations or temporary operations. A grant may be approved for the cost of market research, trade show participation, technology transfer visits, or financial/bookkeeping courses.

2. Market Assistance Program

A maximum grant of \$500 is available for firms to attend, for the first time, market education seminars, trade fairs or exhibitions, visits to identify market opportunities and identify sources of supply. The program pays 50% of costs - except transportation costs - up to a total of \$500. All Nova Scotia businesses with 50 or less employees and less than \$3 million in sales, excepting personal, fitness and professional services are eligible.

3. Consulting Assistance Program

A maximum grant of \$1,500, up to 50% of the project cost is available to help small businesses acquire the services of a qualified consultant to solve a non-recurring problem, the cost of a technology transfer visit by an applicant and the follow-up consulting by an accountant to ensure operation of financial systems. All businesses are eligible except personal, fitness and professional services.

4. Black Entrepreneurs Program

There are two components of this program. The Education component allows for a maximum grant up to \$750 to attend business/management training courses (including export marketing). All businesses are eligible. The Capital Component provides up to 50% of costs with a maximum grant of \$10,000, for a new or existing business owned by a black resident of Nova Scotia. The Program can be used for purchase of land, buildings and equipment. Up to 20% of the grant can apply to inventory or commercial vehicles (excluding passenger vehicles). All businesses are eligible for funding.

ANALYSIS AND RECOMMENDATIONS

Federal Programs

1. External Affairs

On the surface, both the federal and provincial governments have recently demonstrated an increased commitment to assist Nova Scotia companies with their marketing and export trade efforts. External Affairs continues to be the lead federal department in the export assistance area. External administers the Program for Export Market Development (PEMD), a long-standing trade program which appears to cover all aspects of export marketing but which, when examined closely, leaves a number of gap areas. Several identified gaps include:

- . assistance to establish U.S. market sales offices*
- . market reconnaissance assistance on a repeat basis*
- . support for trade promotion within Canada*

The New Exporters to Border States Program (NEBS) is a new industry-initiated program which, according to industry reports, is both practical and a step in the right direction. External has already recognised this in the introduction of a new program New Exporters to the U.S. South (NEXUS) based on the NEBS model.

Council notes with approval the export marketing support available to Nova Scotia businesses through the Department of External Affairs, and encourages the Department to address the perceived gaps in the PEMD program.

2. Industry, Science and Technology Canada

ISTC has a relatively fresh departmental mandate and promises to emphasize export marketing in its efforts to integrate science and industry. Through its International Trade Centres, the Department is trying to provide easier access and more visible trade services. However, in Halifax at least, there appears to have been little change to date. ISTC has also budgeted for expanded export counselling and advisory services to respond to FTA generated trade inquiries, yet to date no permanent staff have been hired to deliver these services.

Therefore, Council recommends that ISTC develop regional capability in the Halifax ISTC office to react to specific Nova Scotia industrial and sectoral adjustment situations. This would require both staff capability and regional authority to act independently in preparing market adjustment profiles and industry competitiveness profiles tailored to the Nova Scotia scene. ISTC should reflect provincial as well as national priorities. (Recommendation 6)

Provincial Programs

1. Department of Industry, Trade and Technology (DITT)

The provincial government, through the establishment of the Department of Industry, Trade and Technology (DITT), has signalled a more aggressive marketing and trade development emphasis. DITT is currently considering a number of new marketing initiatives which could positively impact on the environment and which have been long identified needs and/or been highlighted in recent government policy papers. These include a trade promotion office in Boston, the development of a comprehensive U.S. market intelligence service and a World Market Fund to help companies introduce new products to the U.S. market. An obvious constraint to these plans, however, is the provincial budgetary process.

The department has also introduced a new umbrella trade program, Business Futures, encompassing previous DITT trade development programming and which should allow greater program flexibility and coordination.

In evaluating these activities, Council has several general observations with respect to current government programs:

- . Programs can look good on paper, yet gaps exist and program criteria lack the flexibility to cover identified gaps;
- . There is a lack of coordination of federal and provincial export marketing programs and services. Along with this goes too much bureaucracy and confusion in the private sector as to who does what;
- . In tight budgetary times such as these, government programs and services may suffer cutbacks and refocussed spending such as evidenced by the ACOA situation.

Therefore, Council recommends that government should not develop programs which lack flexibility or are subject to narrow eligibility criteria. The private sector is already confused as to the existing array of federal and provincial market assistance programming and where to go for which type of specific assistance. Where new need areas are discovered, existing program eligibility criteria should be either broadened or refocussed to accommodate the identified shift in demand. (Recommendation 7)

2. Economic and Regional Development Agreements (ERDA's)

On a broader note, a comment can be made regarding the role of government. The decision on which products to produce and which markets to pursue are ones that must be made by individual companies, not by government. The role of government, in general, is to create a stable economic environment and to facilitate, encourage and, where necessary, support the private sector's efforts to achieve domestic and international competitiveness.

The provincial government, in pursuit of this objective, has been working with the private sector to develop a trade strategy as a major component of the New Economic Development Strategy exercise to be completed during 1989 and 1990. A number of trade and marketing policy objectives have been identified which, in combination, should be pursued to complement what is presently offered by both the federal and provincial governments in both the trade and marketing assistance areas. The intention is to press for a federal-provincial agreement under the Economic and Regional Development Agreement (ERDA) to provide assistance to:

- 1. Broaden and diversify the product and service mix offered and the range of export market areas targetted, both nationally and internationally.*
- 2. Improve the design excellence of products and services marketed and adapt, both the product and its packaging to meet specialized foreign market standards.*
- 3. Upgrade the marketing skill levels of Nova Scotia companies and improve the quality of market information and specialized counselling advice offered.*

The proposed Agreement is clearly designed to complement existing services offered by the International Trade Centre of ISTC, the ACOA Action Program and long-standing market assistance programming such as PEMD. There is considerable uncertainty, however, over whether sufficient funds have been budgeted by both governments to sign this Agreement.

Council recommends a marketing and trade development agreement under the ERDA should be supported. A number of gaps (see page 24) have been discovered to exist in present federal and provincial market development programming which could be most effectively covered by a cost-shared agreement. (Recommendation 8)

Nova Scotia Strategic Workshops

It is expected that the FTA will create new export opportunities for Nova Scotia. Against this backdrop of challenges and opportunities, however, many Nova Scotia firms have demonstrated a tendency to be too inward-looking, and often either ignore or are unaware of export opportunities. In particular, small and medium-sized firms (which are the majority in this province) fail to develop marketing capabilities and are reluctant to try their hand at meeting the external challenges.

There appears to be a lack of attention and effort by business on marketing, particularly in the case of new business start-ups. The marketing that is done by firms tends to be narrowly focussed and many new businesses start up with no market assessment at all. The changes inherent in the FTA clearly accentuate the importance of detailed market planning and strategic market analysis to Nova Scotia companies competing in a less protected trading environment.

The situation is compounded by a lack of awareness in the business community of the range of government programs available to help them in marketing and exporting their goods and services. Companies do not know who to approach in government and there also seems to be a lack of qualified marketing consultants to provide the needed hands-on expertise outside of government circles.

There is evidence that the importance of marketing is beginning to be better understood among Nova Scotia businesses. In 1988, the Voluntary Planning organization circulated a questionnaire about free trade to a variety of industries in Nova Scotia. Respondents were asked to identify new government policies and initiatives which would be most important to the private sector in minimizing the risks from the FTA and maximizing the opportunities. Marketing assistance and technology-related assistance were ranked as the highest both in maximizing opportunities and minimizing risks.¹

¹Special Committee on Free Trade Adjustment (Voluntary Planning), "Free Trade Questionnaire: Preliminary Results", 10/05/88.

In response to the urgency and concern about export marketing, the Nova Scotia branch of the Canadian Manufacturers Association (CMA) has prepared a proposal to conduct strategic planning workshops for Nova Scotia businesses. These workshops are loosely modeled after a series of workshops the Province of British Columbia has successfully completed that provided logistical and substantive advice to British Columbia firms.² The Nova Scotia workshops would be designed to:

- assess the effects of the FTA on tariffs and non-tariffs measures*
- analyze the rules of origin set up under the FTA (this area is exceptionally complicated and professional advice is essential for many firms)*
- assist firms to develop strategic marketing plans in response to the conditions created by the FTA*

Council applauds this initiative by the CMA, and notes that it is an example of the kind of local, self-help measures that are needed if Nova Scotia is to adjust to and profit from the FTA.

Therefore, Council recommends strategic planning workshops should be set up at various locations throughout the province to provide practical information for Nova Scotia businesses on selling into the U.S. and international marketplace. (Recommendation 9)

Technology and R & D Assistance

Investments in R & D and in technological progress are often credited with making world leaders in science and technology and with a related growth in economic productivity. Technology is also seen as the new engine of growth for securing jobs and prosperity in an economy.

²Province of British Columbia, The Guide to Strategic Planning Under Free Trade, 1989.

No sector of the Nova Scotia economy is immune to the process of technological change. Although a business may stay technologically up-to-date without an R & D capability, the two often go together. In Nova Scotia, the overall level of R & D in industry is low - approximately 70% of businesses in the manufacturing sector, for example, do not have scientific or engineering staff.

A number of significant federal programs and initiatives have already been set in motion, aimed at funding long-term research and industry-relevant applied research. There are, in fact, over 50 federal departments and agencies which make expenditures to support science and technology for either mission-oriented R & D or in support of specific industrial initiatives.

The provincial research organization, the Nova Scotia Research Foundation Corporation, is specifically charged with assisting industry in the province. The Corporation's activities focus on two themes - assistance to industry in the solution of technical problems, and new product and process innovations which can be transferred to industry. The Foundation could play an important role in providing customized technology solutions to industry problems and in further developing their supportive advisory services.

Council recommends that the Nova Scotia Research Foundation's advisory service capability be strengthened. As well, Council recommends that assistance be provided to companies to carry out technology audits to assess the technologies they use and the effectiveness with which they employ these technologies. A similar audit of a sample of corresponding U.S. companies should also be carried out to help to define any potential technology gap. (Recommendations 10 and 11)

CHAPTER 4

LABOUR ADJUSTMENT

INTRODUCTION

The FTA was concluded by the federal government in order to increase and secure access to Canada's largest foreign market, and to improve the performance of Canadian industry through more open economic competition with U.S. producers. The Agreement was expected to create numerous opportunities for the private sector, which in turn would serve Canadian national interests. At the same time, it was recognized there would be pressures brought on the less competitive areas of the economy.

Any fair-minded assessment of adjustment to free trade must examine the downside as well as the upside of the FTA.

Many people argued during the debate on free trade that the FTA would hurt labour through layoffs and through the introduction of labour-saving technology. It is, therefore, necessary to examine existing government programs that relate to the workforce. Do these programs promote economic adjustment, and are they adequate to handle adjustment to free trade?

Labour adjustment is not a new problem. Governments have been preoccupied with adjustment for some time, and have responded with a wide array of programs. For example, the national Advisory Council on Adjustment noted that "close to 400 programs touching some aspect of adjustment are offered by federal, provincial and territorial governments in support of private sector efforts."¹

Given that governments are already taking action on adjustment, especially labour adjustment, the first step in proposing adjustment programs for the FTA is to assess what governments are already doing.

¹The de Grandpré Report, p. 16.

REVIEW OF GOVERNMENT PROGRAMS

The major government programs currently dealing with loss of employment are Unemployment Insurance (UI), Canadian Jobs Strategy (CJS), and the Labour Force Development Strategy (LFDS). These programs are sponsored by the federal government with some consultation with the provincial governments.

Unemployment Insurance

UI provides income maintenance to unemployed workers whose previous employment was insured (by payment of employer and employee premiums). Benefits are available to workers who are laid off or terminated, or to workers by reason of parental adoption, sickness, seasonal fishing, retirement, special training, work sharing and job creation. The claimant receives 60% of his/her regular insurable earnings, up to a maximum weekly benefit of \$297.00. Additional earnings to 25% of the benefit level can be made before the claim is reduced.

Ten to twenty weeks of insurable employment is required to qualify for benefits, depending on whether the claimant is a "new entrant" or re-entrant to the labour force and the regional unemployment rate. The maximum benefit period is 50 weeks. Employers and employees pay unemployment insurance premiums which are intended (by legislation) to pay for the program. Since 1982, however, the Unemployment Insurance Account has had a year-end cumulative deficit and the federal government is making up the program costs. Further funding changes were made in the recent federal budget.

Canadian Jobs Strategy

CJS attempts to focus all Employment and Immigration Canada's (EIC) human resources programs (totalling \$65.6 million in Nova Scotia for 1988-89) into six major streams. These are:

1. Skill Investment Program

Designed to help workers who have recently lost their jobs due to market or technological change or whose jobs are threatened by changing technology or economic conditions. Financial assistance is available for a range of training options.

- . Retraining Option designed to assist with the adjustment problems of small businesses (under 100 employees);
- . Continuing Employment Option to assist employers who hire and train workers recently laid off (within the last four months);
- . Work Sharing Option which allows workers during economic downturns to work a reduced work week while drawing partial Unemployment Insurance benefits;
- . Training Trust Fund Option which provides contributions for the establishment of a Trust Fund by employee associations.

1988-89 budget: \$3.3 million

2. Job Entry/Re-Entry

Helps young people and women who face difficulties entering the labour force from school or home, to acquire skills and experience. 1988-89 budget: \$9.9 million.

3. Job Development

Is designed to make those experiencing long-term unemployment employable through a combination of work experience and skills training. The program is directed primarily towards persons who have been jobless for at least 24 out of the previous 30 weeks. 1988-89 budget: \$23 million.

4. Skill Shortages

Attempts to ensure that critical skills shortages are alleviated, filling employers' needs for workers with specialized training. 1988-89 budget: \$5.4 million.

5. Community Futures

Designed to help communities facing chronic high unemployment, plant closures and mass layoffs, or severe economic decline. To date, nine Community Futures Committees have been set up in Nova Scotia. 1988-89 budget: \$7.4 million.

6. Innovations Program

Provides funds for new initiatives and innovative solutions to labour market problems outside the framework of traditional problems. 1988-89 budget: \$3.7 million.

In addition to the six major streams outlined above, several other Labour Market Adjustment measures are funded under CJS. The most important of these from a free trade adjustment perspective are:

Industrial Adjustment Service - The Industrial Adjustment Service of EIC provides for the establishment of employer/employee Industrial Adjustment Committees to plan for adjustment due to economic or technological change. The Service assists in the set up of joint consultative committees in firms about to undergo adjustment that significantly affects workers. It has received wide praise as an adjustment facilitator. 1988-89 budget: \$442,000.

An example of union-management cooperation in Nova Scotia is the Sysco cooperative manpower adjustment committee. Its task is to assist laid off steel workers through services such as job searches, upgrading, business skills training, business development seminars and relocation assistance.

Section 38 - Under Section 38 of the Unemployment Insurance Act, provision is made for payment of benefits under approved job creation projects. The objective of Section 38 is to utilize income maintenance expenditures under the UI Program in order to create opportunities for productive activities for the unemployed and to help them maintain their skills. Employers are encouraged to top-up the UI benefits of workers in job creation programs to a wage level that is appropriate to the project. 1988-89 budget: \$2.0 million.

Labour Force Development Strategy

The LFDS consists of a series of changes to UI and CJS programs, and was announced by the Government of Canada on April 11, 1989.² The stated purpose of these changes is to meet the labour force challenges of the 1990s, and to respond to the recommendations of the de Grandpré Report which called for increased funding for training and skill development.

The LFDS will attempt to reinforce private sector training by supporting networks that share human resource concerns, and by providing financial and technical assistance for analysis of human resource issues. Funds will be provided for entry-level skill development, and further allocation will be made to the Industrial Adjustment Service and Community Futures program of the CJS.

The bulk of LFDS funding will go toward changes in the UI Program. The allocation for training under UI has been increased sharply, and increased funding will be available for parental and sickness benefits, and for benefits to displaced older workers. The increased costs of LFDS are intended to be offset by changes to UI which will increase entrance requirements, reduce the duration of benefits, and reduce benefits to voluntary quitters.

A summary of LFDS changes to UI and CJS can be seen in Chart 1.

²Success in the Works: A Policy Paper, Department of Employment and Immigration, Government of Canada, 1989.

CHART 1

THE LABOUR FORCE DEVELOPMENT STRATEGY

Expenditures (\$ millions)

Reinforcement of private sector training:

. Human resource planning	65
. Entry level training	100
. Community Futures/Industrial Adjustment Service	65

Initiatives to help the unemployed:

. Training for UI recipients	350
. Social assistance recipients	50
. Displaced older workers	100
. Self-employment, entrepreneurship, mobility	45

Making UI fairer:

. Parental benefits	340
. Flexibility of special benefits	110
. Age 65 and over	40

Other UI Changes: 25

TOTAL 1,290

Reallocation (\$ millions)

UI access changes:

. Variable entrance requirement and benefits duration	770*
. Voluntary quitters without just cause	450*
. Re-employment assistance for UI recipients	90

TOTAL 1,290

* Impact of individual reform measures does not sum to \$1,290 million due to the classification of participants in more than one category.

ANALYSIS AND RECOMMENDATIONS

General

The government essentially has three responses for dealing with dislocation and adjustment in the workforce: it can train or retrain workers, it can facilitate mobility to new employment, or - in special circumstances - it can provide early retirement for older workers.

Training or retraining is covered mainly by programs of the Canadian Job Strategy (CJS). The Skill Investment and Skill Shortages programs are designed to promote the adjustment of labour to changing technology and conditions, and to provide labour with the skills that are actually needed by prospective employers. The Job Development program attempts to do the same thing for workers experiencing long-term unemployment. The changes introduced by the LFDS are a further step in the same direction.

Mobility is similarly provided for in the CJS. Relocation and travel assistance are specifically available in the Skill Investment, Skill Shortage and Community Futures programs. Additionally, the LFDS provided further funding for mobility assistance.

Early retirement is not a preferred strategy for government, since it is desirable to encourage workers to remain in the workforce until normal retirement. However, there may be circumstances that prevent some older workers who have lost jobs from re-entering the workforce. These circumstances are addressed in the Program for Older Worker Adjustment (POWA), a federal/provincial program announced in 1988 and designed to deal with major, permanent layoffs. Other programs that provide some elements of early retirement are usually tailor-made to specific situations, such as the Supplementary Optional Retirement Program (SORP), which was used successfully at the Trenton Car Works in Nova Scotia to allow early retirement benefits for workers who would not have qualified for other programs.

Council is of the view that adjustment to free trade will not present a substantially different challenge to government than that previously experienced with economic adjustment. Existing programs appear to cover as many of the circumstances faced in labour adjustment as well as can reasonably be expected.

Therefore, Council recommends governments make diligent use of existing programs to facilitate labour adjustment to the FTA, in lieu of establishing new programs. (Recommendation 12)

Canadian Jobs Strategy (CJS)

Previous changes to the CJS in July, 1988 attempted to make the program somewhat more flexible and consequently more capable of addressing the labour market impact of the FTA. EIC officials have indicated that the Continuing Employment Option of the Skill Investment Stream, introduced in July 1988, is intended to specifically address the adjustment needs arising from free trade.

This program provides assistance to workers who are employment-threatened or who have been recently laid off due to technological or market change. This assistance may take two forms: 1) assistance to new or expanding employers to hire and train recently laid off workers; or 2) relocation and travel assistance. This option is intended to capitalize on the upside of free trade and would only be of value to laid off workers who have secured alternative employment.

The Retraining Option within the Skill Investment Stream of CJS may also be of assistance in free trade adjustment, as this stream provides funds for retraining existing workers in a company which is adapting to technological or market change.

Recent changes to the Job Development Stream may make this option accessible for adjustment to free trade. Under these changes, up to 10% of Job Development clients may be exempted from the requirement of being unemployed for 24 of the last 30 weeks. Thus, recently unemployed individuals may qualify for funding under this program, although it is not yet clear how flexible this exemption may be.

The Community Futures Stream has the potential to be utilized by communities adversely affected by the FTA; however, EIC does not appear to be in favour of setting up additional Community Futures Committees. The Industrial Adjustment Services program may be utilized in addressing dislocations arising due to free trade, however, financial support is for administrative and consultative purposes only, and there are no payments to individual laid off workers. Finally, the eligibility criteria for the Job Entry/Re-entry and Innovations streams of the CJS essentially preclude them as free trade adjustment tools.

A further issue is funding. It is one thing to have adequate programs on the books, but to have them sufficiently funded and working effectively is another matter. The adequacy of CJS funding to respond to any dislocation resulting from the FTA will depend on the magnitude of the dislocation and on the accessibility of CJS funds to affected workers. Apparently, EIC will have no difficulty spending the \$65.6 million currently allocated to Nova Scotia for 1988-89. If free trade placed additionally burdens on the budget, then either more funds would be required or persons currently being served by the program would have to be excluded. At present, it is not possible to predict precisely what new burdens - if any - free trade will create, but it does not appear there are any plans to expand the overall CJS budget.

Although the Canadian Jobs Strategy has become somewhat more flexible, and a new option (Continuing Employment) has been introduced to address one aspect of the FTA, only a small proportion of the total CJS budget is allocated to options that relate specifically to free trade adjustment. Given these factors, it would seem that unless greater flexibility is introduced into the CJS, the Strategy will not be as effective as it might be in handling the adjustment requirements in Nova Scotia stemming from the FTA.

Therefore, Council recommends that some flexibility be introduced into the eligibility criteria of CJS streams in order to cover circumstances that may arise in adjusting to the FTA. (Recommendation 13)

Council further recommends that governments carefully monitor future aggregate demand for adjustment assistance, and be prepared to increase funding in FTA-related CJS streams (such as the Continuing Employment Option) if that demand increase sharply. (Recommendation 14)

Older Workers

Older worker adjustment is an important and vital aspect of labour adjustment, but it is not covered by the CJS. The federal and provincial cost-shared Program for Older Worker Adjustment (POWA) is a recent response to this issue, and to date eight provinces have signed agreements with the federal government. Nova Scotia has reached, but not finalized, such an agreement.

The agreement with the Government of New Brunswick, signed in January, 1989, includes the following provisions:

- . cost-sharing 70/30 federal-provincial
- . covers major permanent layoffs of workers between the ages of 55-64
- . older workers must have exhausted UI entitlements before becoming eligible for POWA benefits
- . layoffs from all industries in the private sector and from commercially oriented crown corporations will be considered
- . the layoff must result in a permanent work force reduction

Council is of the view that POWA would serve the interests of Nova Scotia workers, and that any agreement should seek to extend benefits to permanently unemployed older workers regardless of whether or not they are subject to a "major" layoff.

Therefore, Council recommends the Government of Nova Scotia finalize a POWA agreement with the federal government as soon as possible. (Recommendation 15)

UI and LFDS

Council recognizes that with expenditures of approximately \$11 billion, Unemployment Insurance is the primary social safety net for those individuals who have just lost their jobs or are in employment transition. However, while temporary income protection is accepted as vital to society, UI has been widely criticized for absorbing a massive and disproportionate share of expenditures on the labour market.

UI has been accused of providing payments to those who do not need it, acting as a disincentive to permanent employment, and generally being too accessible. In addition, the need to link UI to properly equipping people with employment skills has long been noted. In this regard, the CEIC has, through Section 39 (now Section 26) of the UI Act, allowed UI claimants to attend training courses. Recently, the federal government has doubled allocation for Section 26 to cover 60,000 UI recipients as part of its new \$1.3 billion Labour Force Development Strategy.

Council supports the allocation of more resources to "trampoline" initiatives, including such LFDS elements as:

- . promoting employment skills/experience for social assistance recipients
- . expanded options for older workers
- . increased re-location assistance
- . incentives for firms to hire and train displaced workers
- . job search assistance
- . UI benefits for workers requiring more education prior to specialized occupation training
- . applying UI to new business start-ups

At the same time, Council supports the tailoring and sensitivity of UI to regional economic and unemployment situations, basically through variable criteria for eligibility and benefit duration. UI plays an important role in ameliorating seasonal unemployment and helping to bridge layoffs in Nova Scotia, but should not be relied upon as a permanent source of income, especially by high income earners. UI should be structured so as to maintain a level of family income in unemployment situations and not be looked upon as an income supplement that may alleviate the need to seek employment.

Worker Protection

The de Grandpré Report identified some important aspects of worker protection where greater uniformity across Canada would be beneficial. The Report recommended the following procedures:

1. Advanced Notice of Layoff

Governments put in place minimum standards for advance layoffs. Notice period of:

- . 2 weeks regular notice for all companies laying off 1 to 4 persons;**
- . 4 weeks regular notice for all companies laying off 5 to 9 persons;**
- . 8 weeks regular notice for all companies laying off 10 to 49 employees;**
and
- . Regular part-time employees receive the same advance notice of layoff as full-time employees.**
- . In group layoffs, the employer be required to supply the relevant agencies with a full demographic and skill profile of those laid off, the proposed compensation and redeployment package, together with the reasons for layoff.**

The federal government, through existing agencies and departments, ensure that employers fully respect seniority provisions, pensions, and other benefits built up during employment, in the design and implementation of mergers, acquisition, and product rationalization strategies.

2. Severance Pay

Legislation should provide to employees with five years of more of service, as a minimum:

- . one week regular wages, excluding overtime, for each year of service, plus a credit for each complete month of service to a maximum of 26 weeks;**
- . a further one-half week per year of service for workers 55 years and over, to a combined service-plus-age maximum of 39 weeks.**

Severance payments not be considered in the determination and allocation of earnings for UI benefit purposes. The federal government undertake a study of the costs and benefits of treating severance payments to a maximum of \$10,000 as a capital gain for the purposes of income tax.

3. Wage Earner Protection

Government create a national wage earner protection fund to make payments of up to \$4,000 to cover unpaid amounts owing to workers for such items as wages, vacation pay, pension and benefit premiums and severance pay. In lieu of such a fund, legislation be passed to ensure these claims have priority in the disposal of company assets.

In Nova Scotia, there is legislation (the Industry Closing Act, Labour Standards Code) that requires advance notice for plant closures to government and employees, respectively. The Council recommends that provincial legislation be brought into line with the above recommendations of the de Grandpré or, alternatively, to whatever national standards and funding mechanisms emerge from ongoing federal/provincial consultations. (Recommendation 16)

CHAPTER 5

BUSINESS ADJUSTMENT

INTRODUCTION

Adjustment to free trade has essentially two goals - to maximize opportunities and to minimize risks. Marketing and new export opportunities have been targeted as upside opportunities for Nova Scotia firms. However, we must also consider the potential downside effects of free trade and how the government should respond to minimize risks.

The potential magnitude of the downside impacts of the FTA has attracted a lot of discussion in the past several months. The total elimination of tariffs, albeit over ten years, in addition to other FTA provisions, has generated considerable speculation about how various sectors and firms will adjust to changing circumstances. These changes can be especially difficult in Nova Scotia, given the small economic infrastructure of the province.

This chapter examines government programs aimed at improving the competitiveness of Nova Scotia. The competitiveness of Nova Scotia industry is not a new problem. Governments, both federal and provincial, have been attempting to deal with this issue for years and consequently, there are numerous programs already in place.

Both levels of government offer a wide range of supports which address financing, technology, marketing and training requirements, which in turn assist competitiveness. Council believes that although there are some problems with available programs, these problems are not insurmountable, and the programs themselves can be targeted for free trade adjustment.

Council proceeded, in the following pages, to identify the types of programs which are important to adjustment and the conditions which help ensure programs will be effective.

REVIEW OF GOVERNMENT PROGRAMS

Federal Government

There is a wide range of grant and loan programs and tax incentives oriented to the establishment, expansion and modernization of processing and manufacturing facilities and the development of products. The most important federal programs originate from the Atlantic Canada Opportunities Agency (ACOA); the Federal Business Development Bank (FBDB); and Industry, Science and Technology Canada (ISTC). For a discussion of ISTC, see Chapter Three.

1. ACOA

In Nova Scotia, the federal agency responsible for business financial incentives programs is ACOA. In 1988, previous federal financial assistance programs to business were consolidated into the ACOA Action Program. The Action Program is extremely broad and offers seven main areas of assistance, two of which (Studies and Innovation) are particularly relevant for export marketing (see Chapter Three).

The seven areas are:

- i) Loan Insurance for new capital investments (85% on \$100,000 over a maximum of 15 years).*
- ii) Interest Buy-Downs on new term loans for new capital investments of \$25,000 or more.*
- iii) Business Support grants or contributions to non-commercial operations for providing specialized service to business.*
- iv) Studies assistance up to 75% to contract consultants for business or marketing plans, perform market research, undertake venture capital searches, etc.*
- v) Innovation contributions up to 60% for researching and developing a new product, process or service.*
- vi) New Facility Establishment grants of up to 50% of the capital costs of establishing a new facility.*

- vii) Expansion Modernisation/New Product Expansion grants up to 30% of the capital costs of expanding or modernizing an existing facility or up to 40% to allow new product expansion.

2. FBDB

The Federal Business Development Bank (FBDB) also has two programs of relevance for free trade adjustment:

- i) Export Receivable Financing assists small and medium-sized businesses by providing them with a means to finance their export receivables through conditional guarantees of lines of credit obtained from financial institutions that are secured by those export receivables.
- ii) Term Loans and Loan Guarantees are provided to finance the acquisition of fixed assets, such as land, building, machinery and equipment as well as the purchase of an existing business. The FBDB also can act as guarantor for a client in its dealings with a chartered bank or other financial institutions.

Provincial Government

Provincially, agencies for financial assistance include the Departments of Industry, Trade and Technology; Small Business Development; and, Agriculture and Marketing. The principal financing instrument is the Nova Scotia Business Capital Corporation (BCC) which provides relatively low interest loans (cost of borrowing to the province plus 1%) and loan guarantees. BCC also takes equity positions under the Venture Capital Corporation Act and security in income bonds. The Business Capital Corporation has approximately \$345 million in current loans and loan guarantees on its books and is currently responding to specific free trade requests primarily for loan guarantees. It excludes only the retail and wholesale sectors.

For adjustment purposes, the most important sources of funding, potentially, are the Special Assistance Programs of the Departments of Industry, Trade and Technology and Small Business Development. These sizeable discretionary funds (approximately \$23.5 million in 1988/89 and \$16 million in 1989/90) are available to government ministers to assist industries, and have been used to provide financial assistance outside program frameworks for declining industries and those in crises. In addition, the federal and provincial governments have both collaborated on channelling assistance to specific industries and communities through federal/provincial agreements under the auspices of the Economic Regional Development Agreements (ERDA). These include, for example, the Tourism, Mining and Forestry ERDA's, which are very important sources of government funding.

ANALYSIS AND RECOMMENDATIONS

Financial Assistance

The provincial government, in particular the Department of Industry, Trade and Technology (DITT) previously initiated extensive rounds of consultations with industry associations, commodity groups and specific companies that might be negatively affected by the FTA. These industries generally enjoyed significant levels of trade protection (tariffs and/or non-tariffs barriers), they exported relatively little and they were sensitive to competition from imports. The companies tended to be resource based mature manufacturers, often indigenous and medium in size.

The companies consulted included the following industries:

- . food products, food processing and agriculture
- . beverages
- . knitting mills
- . textiles
- . clothing
- . primary metals (steel)
- . paper boxboard/linerboard, packaging products
- . wood products, millwork and furniture
- . printing
- . metal fabrication

- . *shipbuilding and repair*
- . *paints and chemicals*
- . *electrical*
- . *railway rolling stock*
- . *wineries*

DITT found that many companies in the above group were either indifferent to the FTA, or in fact expressed a positive attitude toward the changes the FTA might create.

In preparing for its own consultation, the Council solicited representatives from companies and groups that might be affected by the FTA. The only industry groups that made representations to the effect the FTA might affect them negatively were as follows:

- . *food processing*
- . *agriculture*
- . *electrical products*
- . *textiles*
- . *wineries*

Over the course of its consultations, Council has received a number of suggestions and requests for specific assistance from companies with downside adjustment problems. The suggestions that deal with financing include the following:

- . *Direct compensation for lost revenues or sales volumes directly attributable to FTA changes*
- . *Assistance with transportation costs*
- . *Financial assistance for modernization*
- . *Expanding the maximum loan guarantee available under the federal Small Business Loans Act from \$100,000 to \$250,000*
- . *Bridge financing and short term assistance to deal with individual situations of a no-bailout nature.*

In reacting to these suggestions, the question comes up whether government should institute new programs to provide financial assistance to companies facing difficulties in adjusting to the FTA.

There is a wide range of grant and loan programs and tax incentives already geared to the establishment, expansion and modernization of processing and manufacturing facilities and the development of products. Increasingly, the eligibility of these programs is being extended to service sector activities which now on the whole represent an 80% share of the economy. Key agencies include, the Atlantic Canada Opportunities Agency, Department of Small Business Development, Department of Industry, Trade and Technology, Science and Technology Canada.

For farming, there is a wide range of programs covering capital investment (land, buildings, equipment), input costs, transportation costs, product improvement, marketing and management/technical support services, and so forth.

Regarding provincial government programs, the principal financing instrument is the Nova Scotia Business Capital Corporation, which provides relatively low interest loans. Further funds for financial assistance are available, particularly through the Special Assistance Program (SAP) of the Department of Industry, Trade and Technology. The SAP is not a formal government program with fixed, bureaucratic guidelines, but rather is a mechanism to transfer financial assistance to companies based on objective needs. Decisions on the use of SAP funds rest with Cabinet, and its use is determined by government priorities. Although provincial budgetary resources are very tight, which necessitate that assistance must be given judiciously, the flexibility of SAP makes it a logical budgetary category to be used for FTA adjustment.

Given the actual and potential scope of the existing programs and funding available for bolstering competitiveness and facilitating adjustment, Council is of the view that new financial support programs are not necessary to deal with FTA adjustment.

*Therefore, Council recommends governments make use of existing programs to finance FTA adjustment, especially the Business Capital Corporation and the Special Assistance Program of DITT, in lieu of creating new government programs.
(Recommendation 17)*

A government commitment to deal with the challenge of adjustment and to mitigate hardship carries with it an obligation to commit resources, even if only on a contingency basis.

With the current deficit management problem and budgetary squeeze at both levels of government, there have not been any firm commitments on adjustment. The federal government is, in fact, cutting back on regional development funding for ERDA's and ACOA. This in turn forces agencies to tighten up on program coverage and eligibility and thus creates uncertainty at a time when business and communities require a stable investment climate and flexible programs. An important concern the Council has is that ERDA and program cutbacks could take place over time with priorities shifting away from programming that supports positive adjustment. Funding should be multiyear to ensure stability and avoid frequent situations where promises and major announcements are made and subsequently lost sight of in the annual budgetary process.

Major provincial sources of financial support such as the Business Capital Corporation and ministerial contingency funds are prone to some budgetary inconsistency from year to year, in that funds available for new commitments are determined by the extent of existing, frequently multiyear commitments and any additional funds, if any, that are voted in each fiscal year. In fiscal 1989-90, discretionary ministerial funds have been cutback significantly. Again, multiyear funding is appropriate.

While Council is not in a position to estimate precisely the funds needed to deal with downside financial requirements of industries, it does feel adequate funding should be allocated to those federal and provincial programs which are effective in facilitating adjustment.

Therefore, Council recommends governments should assure - consistent with other priorities - that existing adjustment programs are sufficiently funded to meet FTA adjustment requirements. (Recommendation 18)

Criteria for Financial Assistance

Council is especially concerned about firms which are important to communities and which have realistic prospects for long-term viability and survival. However, before large sums of public money, through grants or loans, are committed to applicant industries, various guidelines should be established to maximize the effectiveness of the assistance. The Nova Scotia White Paper on Economic Development lays out six guidelines which the Council considers to be a good starting point:¹

- . The potential competitiveness of a firm is the most important determinant of eligibility for assistance.
- . Assistance programs will be available in all economic sectors.
- . Access to assistance programs will not be affected by the size of the firm making the application.
- . Government assistance will be limited to being short-term in nature.
- . Government assistance will be designed so that maximum possible use is made of the private financial marketplace.
- . There should be a high likelihood of public payback within a relatively few short year.

Additional criteria proposed by Council include:

- . The management team should be committed to strategic planning and should have a detailed and comprehensive business plan which is appropriate to the size of the enterprise.
- . Major new investment should be made or be forthcoming from existing or new owners.
- . Management should utilize available public sector advisory and technical support services.
- . Management should be competent and efficiency oriented, and demonstrate a commitment to human resource development.

¹Building Competitiveness: A White Paper on Economic Development, Halifax: Province of Nova Scotia, February, 1984.

It would also be appropriate for government to attach performance requirements or conditions to ensure necessary steps towards competitiveness are taken and workers are treated responsibly.

In addition, changes in ownership, including worker and/or management buyouts, should be encouraged where rejuvenation is the likely outcome.

Council feels the use of reasonable and objective guidelines for financial assistance will help prevent misuse of government funds through costly, long-term bail-outs of inefficient companies.

Therefore, Council recommends government make use of the above guidelines, and the guidelines for industrial aid in the White Paper on Economic Development, in assessing requests for financial assistance in connection with FTA adjustment. (Recommendation 19)

A further concern regarding government financial assistance is U.S. countervail law. Canada and the United States have not yet agreed on commonly-acceptable subsidy practices. This means that government assistance which affects traded goods runs a risk - under current United States legislation - of attracting a countervailing duty suit in that country. Assistance which is generally available to a wide range of industries, or which does not affect traded products, is unlikely to carry the same risk.

Therefore, Council recommends that government officials should be aware of the possible countervail implications of government assistance, and should implement assistance programs in a manner that minimizes the risk of countervailing duty actions against Nova Scotia exports. (Recommendation 20)

ACOA

The problem in evaluating ACOA's contribution to economic adjustment is that it is a moving target - exactly what is or is not funded is subject to change. The distribution of assistance granted by ACOA in its first year of operation (1987-88) demonstrated a heavy orientation toward manufacturing and processing businesses. Just under 500 applications were approved during the year for a dollar value of \$42.8 million. This orientation seems appropriate for adjustment to the FTA, but it is unclear whether this funding orientation will continue.

It would appear the Action Program will be able to cope with a wide range of adjustment situations. However, concerns have been expressed that the wide-open nature of ACOA funding has, or very shortly will, deplete the funding allocation given to Nova Scotia this fiscal year. The recent cuts to the ACOA budget by the federal government will further weaken this agency as a tool of adjustment.

Council has received a number of complaints about ACOA. One is that programs often work on a reimbursement basis and this is difficult for new businesses. Second, it is argued the capital cost orientation of programs is not useful to high-tech companies, innovators or researchers who face high operating costs of a soft nature. Third, it is felt that programs are too inflexible and bureaucratic to ensure that those businesses with the potential to compete and diversify get adequate funding. Finally, it is suggested ACOA programs should be geared toward small business, as originally intended.

Council recognizes that ACOA is the most important federal program providing financial assistance for potential FTA-adjustment problems in Nova Scotia.

Therefore, Council recommends that the 1989 reductions in federal funding should be restored to the ACOA budget, and that the ACOA Action Program should be reviewed to ensure its operations are consistent with adjustment to the FTA. (Recommendation 21)

Technology and Taxation

Technology is another area directly related to competitiveness. Council believes that the expected challenge of technological change and the structure of the Nova Scotia economy requires extra effort on the part of government to adapt to changes in society and the workplace. Closer linkages between institutions, universities and industry should be cultivated within the province and outside Nova Scotia, to build technology transfer opportunities and to raise awareness of the need to facilitate the acquisition of new technology and processes in industry.

Related to this, Council has determined that several taxation issues need to be reevaluated. The provincial Research and Development Tax Credit essentially acts as a disincentive to industries, since the tax credit is added into taxable income for that year, and it reduces the amount of the federal R & D Tax Credit. The effectiveness of this credit was severely eroded by changes made to the Federal Income Tax Act in 1986, and the ideal solution would be federal action to amend its legislation so as to restore the benefits of the credit. Moreover, the federal government tax structure, as noted by the de Grandpré Report and others, now treats R & D and machinery/equipment depreciation less favourably than in previous years. This flies in the face of federal concerns about Canada's technology performance and should be re-evaluated.

Also, the Nova Scotia Machinery and Equipment Tax, prior to a recent change, threatened modernization schemes with municipal taxation. Nova Scotia is the only province to levy such a tax, and it is generally considered regressive and having a negative effect on the investment climate. As such, it should be eliminated.

The Council recommends that the federal and provincial governments carefully review their tax treatment of R & D and capital modernization to ensure that domestic industry is not placed at a competitive disadvantage or discouraged from making investments of this nature. (Recommendation 22)

CHAPTER 6

ADJUSTMENT OF COMMUNITIES

INTRODUCTION

It is generally accepted that downside adjustment will be minimized where an economic base is broad, diversified and most often urban. The reverse is, of course, true for remote, non-diversified and small community economies.

Unfortunately, there are all too many examples of communities in the Maritimes that have experienced or will experience adjustment jolts stemming from plant, mine and military base closures or scale reductions. Speculation about the long term effects of the FTA have created anxieties in communities such as Truro, Hantsport and Windsor where industry leaders have expressed their concerns about their longer term competitiveness. As the national Council observed, "the areas most likely to be affected negatively are those population centres where there is only one source or a limited number of places of employment. Examples are communities with import vulnerable industries such as textiles and clothing, as well as commodity-based industries which are subject to relatively wide price swings and changing consumer taste."¹

When economic adjustment affects a whole community, often the solution is best addressed on a community basis. Both the federal and provincial governments maintain programs for community-based economic adjustment. These programs emphasize values such as local participation and control, self-help, and sustainable benefits.

¹Adjusting to Win. Report of the Advisory Council on Adjustment, Government of Canada, March 1989 (p. 62).

REVIEW OF GOVERNMENT PROGRAMS

Federal Government

The initiative has mainly come from the federal government in funding community adjustment programming. The main federal program is Community Futures of the Canadian Jobs Strategy (CJS).

The objective of Community Futures is to assist communities in their efforts to identify, develop and undertake measures to help individuals adjust and adapt to a changing economic environment and to expand permanent employment. Eligible communities are chosen from non-metropolitan areas with exceptionally high unemployment.

The program calls for a locally-based Community Futures Committee (CFC) to be established. The CFC then selects the appropriate mix from among five program options:

1. Business Development Centres

Provides locally managed technical and advisory services to small businesses as well as loan investment assistance of up to \$75,000 per firm.

2. Self-Employment Incentive

Provides a grant of \$180 per week for a maximum of 52 weeks to individuals who are eligible for Unemployment Insurance or social assistance to help them to start their own businesses.

3. Relocation and Travel Assistance

Provides assistance for travel to seek employment and to relocate workers who are unemployed, or about to become unemployed and for whom work is not available locally.

4. Direct Purchase of Training

Provides occupational training to workers to meet the need for skills and increase earning and employability capacities.

5. Community Initiatives Fund

Supports unique and innovative proposals of the CFC for employment growth and recovery.

In Nova Scotia, nine communities have been selected for assistance under community Futures (Glace Bay, Sydney, Northside, Pictou County, Cumberland County, Eastern Shore, Digby, Yarmouth and Windsor-West Han's). It is anticipated that Shelburne, because of the Lockeport fish plant closure situation, will also be designated in the very near future. Community selection is done according to a series of economic indicators including, but not limited to, acute chronic unemployment, major layoffs, physical infrastructure, population size, community leadership, participation rates and UI claimants.

Two other federal programs are community based economic development objectives. They are:

The Canadian Jobs Strategy (CJS) Innovations Program. This program provides funds for new and cost effective ways to improve the functioning of the Canadian labour market. It can also be utilized for community adjustment purposes as it provides funding for less traditional, more innovative solutions to labour problems. However, Community Futures is a much more tailored and appropriate vehicle for serious community adjustment problems.

The Native Economic Development Program. This program is aimed at the native community, including status and non-status Indians in the province, and is strictly limited to developing self-reliance in Indian communities.

Provincial Government

While no direct financial assistance program has been set up with the express purpose of assisting municipal units facing the erosion of tax bases as a result of industry closures, the Department of Municipal Affairs provides special funding, on an emergency response basis. Assistance has averaged in the \$4 million range annually under Section 36 of the Municipal Grants Act. Approximately fourteen municipal units received assistance under this special fund last year.

ANALYSIS AND RECOMMENDATIONS

General

Single industry communities present special adjustment problems when the single dominant economy activity in the community faces either closure or a serious realignment.

Bridgetown is an interesting community case study. The town had one major industrial employer, United Elastics, employing up to 250 people (100 men and 150 women) with an annual payroll of over \$1 million. In late 1968, the plant was purchased by J. P. Stevens Co. Inc. of New York, a very large multi-national. It became clear that the Nova Scotia plant was facing with an uncertain future as it would only be a matter of time before the Bridgetown plant became less profitable than alternative investment opportunities available to J. P. Stevens. The outlook was for stiff international price competition by imports in Canadian markets and, industry trends of establishing production facilities in the lower wage rate countries.

Faced with this closure threat, the employees and management of United Elastics acted immediately to put together a business plan to take over the plant. The provincial government applied existing programming in a flexible manner to assist in the employee-management buy out, and the results are a highly successful, profitable company, Britex, employing 190 and exporting world-wide.

Another way of coping with community crisis has been the ongoing struggle in the community of Glace Bay. Here, a series of incremental activities have been undertaken, including a YMCA-sponsored small business incubator, a special federal Enterprise Cape Breton tax and financial incentives program, and a restructuring by DEVCO and Industrial Estates Limited of the Highland Fisheries plant. These activities have reduced the extent of serious economic disruptions for the town.

The layoffs at Hawker Siddeley in Trenton resulted in a case that is in many ways unique. Existing federal government programming--UI, the Canada Mobility Program and the Canadian Jobs Strategy were utilized in a rather different fashion--to develop the skills of employees for use in the plant rather than outside of it. The objective clearly was to find a buyer for the plant and to ensure its continuing existence. At the same time, government wanted to create a retirement plan for older workers (55-64) to give the younger workers an opportunity for stable, long term employment and thereby present a younger more saleable workforce to any prospective buyer of the plant. The result was the Supplemental Optional Retirement Program (SORP), a \$16 million program cost-shared by the federal-provincial government and tailored to the special needs of the Trenton situation.

The ultimate conclusion is that flexibility of response to meet the special needs of the community adjustment crisis is essential.

Community Futures

The Community Futures program is generally well regarded. There has been little difficulty with the selection of communities to receive assistance, as there has been considerable provincial, private sector and community input into the determination of criteria for selection. However, several issues have surfaced over the implementation of the program.

The program provides a maximum of three year's assistance after which the community must become self-sufficient. Community development practitioners fully appreciate the need to achieve self-reliance; however, three years can prove a very short time frame to accomplish independence from government assistance. Funding would, of course, only be extended based on positive evaluations (completed annually) of a community's progress toward self-sufficiency.

In Nova Scotia, several of the Community Future options, in particular Relocation and Travel Assistance and Direct Purchase of Institutional Training, have not been well used. Communities have, in a number of cases, identified other more useful options such as hands-on, non-institutional training, advisory services and loan guarantees which should be considered as eligible under the program.

Council notes the importance of flexibility in providing for community economic adjustment, and recommends that the Community Futures Program be administered with greater flexibility to allow the program to extend beyond three years where needed and to permit alternatives beyond the seven specified options to be put in place. (Recommendation 23)

Community Futures provides positive financial assistance yet offers little or no advice or hands-on support. Communities often need advisory support and have come to rely on staff of the Community Economic Development Branch of the Department of Small Business Development for help.

Council recognizes the importance to build joint mechanisms between federal, provincial and municipal levels of government.

Therefore, Council recommends the provincial government expand the advisory service capability of the Community Economic Development Branch of Small Business, and that governments insure that municipal units are more directly involved in the implementation of Community Futures plans. (Recommendation 24)

Finally, Council endorses the recommendation of the de Grandpré Report that the federal government should be prepared to expand the Community Futures Program as needed. (Recommendation 25)

CHAPTER 7

AGRICULTURE

INTRODUCTION

The importance of the agricultural sector to the Nova Scotia economy goes beyond the relatively small number of farms and full-time farmers involved. Farm cash receipts now exceed \$300M, and the diversity and location of farms contribute to economic activity in many rural communities.

Substantial processing and food industries are based on primary production with the dairies, meat and fruit/vegetable processors being major employers in various parts of the province. In addition, these primary and secondary industries create tremendous spinoff benefits for suppliers of equipment, feeds, transportation/distribution services, packaging, etc.

The sector has experienced a great deal of government involvement in the past two decades. Both levels of government cooperated in the establishment and maintenance of supply management systems and price support and other subsidy programs. Fully half of farm sales in Nova Scotia are derived from supply managed commodities--milk and poultry.

The FTA represents a potentially significant change in the status quo and has, therefore, led to a number of key worries for the Eastern Canadian agriculture community. The local agricultural community, through the Nova Scotia Federation of Agriculture and various commodity associations, is a well organized group that is alert to potential dangers as well as opportunities posed by trade liberalization. The community is acutely aware there are various factors, including climate, geography and population which can favour production of farm products in the U.S. that are now sourced locally or within Canada. They believe some sectors would be decimated in a total free trade situation. In this regard, they "are determined to demonstrate to the public the merits of supply management and regional agricultural policies and show that these are in the best interest of both producers and consumers. There are very real economic and social needs for a family farm based agricultural policy in Canada that supports a commodity-diverse and regionally-diverse industry".¹

The Federation and several associated delegations met with the Council and they have submitted extensive briefs, all relating to their perception of specific downside adjustment problems and concerns associated with the FTA and evolving General Agreement on Tariffs and Trade.

The Federation was most distressed that the national Council devoted much of agri-food chapter of its report to analyzing and resolving the raw material cost competitiveness problems of food processors.

POULTRY SECTOR

The Council met with and received briefs from the following associations and companies:

- . Nova Scotia Chicken Marketing Board*
- . Nova Scotia Turkey Marketing Board*
- . Nova Scotia Egg and Pullet Producers Marketing Board*
- . ACA Cooperative*

¹Nova Scotia Federation of Agriculture, Trade Committee Policy Paper, April 1989, p. 1.

Chicken/Turkey

a) Industry Position

The Nova Scotia Chicken and Turkey Marketing Boards and a major processor expect that provisions of the Canada/US Trade Agreement will impact severely upon their businesses. They foresee future revenue losses due to the higher import quotas granted to the U.S. They are especially concerned about the phase-out and elimination of the tariffs on the further processed products which are not on the Import Control List (eg. prepared dinners like Chicken Cordon Bleu, Chicken Kiev). The de Grandpré Report recommended a two-price system/strategy to counter the increased competition in this market niche. This approach does not appear to be totally (nor perhaps widely) accepted in the industry.

To address the problems they foresee, provincial producers are seeking quota buy-out arrangements and price stabilization plans. The quota buy-out would only become effective if production were forced significantly below current levels.

A major processor predicts that the poultry meat processing industry in the Maritimes will rationalize and further consolidate. To remain cost competitive, processors must modernize plant equipment, upgrade marketing and product development capabilities and train workers.

b) Analysis

With regard to the need for eventual quota buy-out and price stabilization schemes for these commodity sectors there are differing views on the outlook under the Canad-U.S. Free Trade Agreement. The more common assessment held by Agriculture Canada is that the poultry industry will continue to experience growth and strong markets. Agriculture Canada's current medium term five year forecast for chicken and turkey production and prices is shown in Table 1. The national marketing agencies have also expressed the view that the industry's position has been successfully secured under the bilateral agreement (but now must be alerted to the possible ramifications of the Multilateral Trade Negotiations). It is also difficult to become overly alarmed about the potential penetration of further processed products from the U.S. if:

- i) It is only products such as prepared dinners which are not covered by the Import Control List. (These products now represent less than 1% of the market.)
- ii) Marketing boards reportedly have the ability to adjust production so as to prevent the shortages which have led to supplementary imports.

Table 1

Poultry Production and Price Data, 1989-1993

	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>
1. <u>Turkey</u>					
Production (000t)	119.2	124.2	126.4	128.6	131.0
Price (¢/kg) (Ont. Broiler)	159.5	163.6	163.0	161.9	160.6
2. <u>Eggs</u>					
Production (000) boxes of 15 doz.)	27,703	27,517	27,242	27,070	26,893
Price (Grade A large ¢/doz.)	114.3	105.3	108.4	112.5	114.7
3. <u>Chicken</u>					
Production (000t)	526.6	539.0	558.9	575.5	595.6
Price (Ont. broiler ¢/kg)	119.0	111.6	109.5	110.6	110.8

SOURCE: Farm Model, June 20, 1989; compiled June 26, 1989

As for the interests of further processors and food manufacturers, the Council does not dismiss out of hand the de Grandpré Report's proposed two-price system to provide processors with competitively priced meat.

At the higher costs which prevail in the industry, the prospects of a two-price system are, however, less satisfactory to Nova Scotia producers than they are in Ontario. There are many variations possible for such a system, however, and these have different price and growth implications. The Department of Agriculture suggests that if special quota were issued (and returns were not equalized in some manner), it is possible that no producers in Nova Scotia would be willing to produce for the lower prices. On the other hand, if these lower price sales were spread over the quota system, Nova Scotia would share completely in the national market growth, but average returns could fall slightly.

In addition to the industry's understandable unease about cost conditions, there is also a more general (national) reluctance towards a two-price system, no doubt because of its complexities and administrative demands, the possibilities for creating disharmony among plan signatories, etc.

There are two-price system variations which would not serve the industry's interests well, but no doubt there are others that would be satisfactory.

What has been ignored in the de Grandpré Report and submissions received by the Nova Scotia Adjustment Advisory Council is the positive impact of the allocation to further processors of the import quota increase arising from the FTA. This should make a tremendous contribution to the processing industry in terms of the accessibility of U.S. priced inputs and should reduce the need to push up retail meat prices (as proposed in the de Grandpré Report).

It must also be recognized as has been pointed out by the Chicken Marketing Board, that national policies very much affect the cost competitiveness of primary producers. Feed grain costs are kept artificially high in this region due to import barriers which favour other regions. These barriers include restrictions on foreign shipping, Brazilian soya imports, Argentine corn, U.S. corn (countervailing duties), and all foreign wheat, oats and barley. The announced termination of the Atlantic and Eastern rail transportation subsidy for Canadian grain and flour exported from east coast ports will serve to exacerbate this inequitable situation.

c) Recommendations

The provincial governments and federal agencies in the Atlantic Region should aggressively press Ottawa to reverse the erosion in feed cost competitiveness which has been exacerbated by the above restrictions.

A reduced cost spread between regions would improve producer confidence and permit pragmatic marketing and investment strategies. (Recommendation 26)

Governments should closely monitor the domestic market situation relative to growth in demand, import penetration and protection costs. (Recommendation 27)

In light of the need to bolster confidence in these commodity groups, the provincial government should consider making a buy-out and stabilization program commitment to farmers that provides an "insurance policy" against the worst case scenario put forward. The schemes which are developed should, however, be compatible with levels of support and benefits provided to other commodity groups. (Recommendation 28)

The Council has not chosen to recommend specific measures for poultry meat processing operations as their cost competitiveness requirements are similar to those of other processors and manufacturers (and dealt with generically in Chapters 4, 5, and 7). (Recommendation 29)

Egg and Pullet

a) Industry Position

The producers in this commodity area have identified the following problem areas:

- 1) The removal of tariffs, which would affect the domestic breaker price (for processing eggs) as well as lowering the price of imported eggs, against which domestic producers must, over time, compete.*
- 2) The raising of global import quotas, further reducing the available domestic market for Canadian producers, and ultimately leading to domestic quota reductions (valued at \$162,000).*
- 3) The harmonization of standards between Canada and the U.S. At this stage, the specific impact of this process, which has barely begun, is very difficult to quantify.*

- 4) The possible loss of U.S. markets for surplus eggs if an FTA provision disallows the export sale of goods by a "public entity" at a price below acquisition and handling costs. This would reportedly involve about 15% of the national production and would translate into a quota cut, affecting 125,000 layers.

One firm has pointed to the long-term decline in domestic egg demand and their expectation of a higher level of import-competition for both table-egg and processed-egg markets, and a very substantial decline in the number of domestic egg producers. The firm further suggests that reduced quotas in Nova Scotia would lead to further consolidation of egg primary production (farms), clustering around the small number of grading stations, and obviously a reduction in the current level of competition between Nova Scotia egg suppliers at the wholesale level.

The Marketing Board is suggesting that the provincial government buy up the quota and facilities of producers to the extent that quota losses result.

b) Analysis

Unlike the poultry (meat) sector, egg producers have encountered a long term decline in the demand for eggs. Combined with the steady increases in the rate-of-lay of birds, the industry has been forced to "down-size". This direction has been difficult for the supply managed system and costly surpluses have been a continuing problem.

The biggest fear of the Canadian Egg Marketing Agency (CEMA) concerning the Trade Agreement is that they will be prohibited from selling egg surpluses in the United States. The federal government, however, appears confident that CEMA practices are consistent with the FTA.

It has been noted by the Department of Agriculture that if the worst case scenario unfolded for the egg industry, and they were to lose the U.S. market for their surplus eggs, this would reduce egg production in Canada (to the degree that alternate markets could not be found). However, the implications for industry returns are not as straightforward since the surplus sales to the United States are made at prices substantially below domestic prices and below their cost of production formula.

Shell egg exports to the U.S. have been reduced in recent years because of increased demand from domestic processors. About 12% of eggs were surplus last year, and a sizeable portion of this went to the U.S.

The Council has concluded the following:

- 1) The industry is already being forced to deal with internal, structural surpluses and this is clouding the adjustment picture.*
 - 2) It is impossible to accurately predict what loss of quota and downsizing could result from the FTA in the future and, in turn, put into effect a buy-out program.*
- c) Recommendations*

The provincial government consider making a commitment on a conditional buy-out program. The program should only address any surplus problem directly associated with the FTA and be in line with measures taken to cover other poultry commodities. (Recommendation 30)

The provincial government should press the federal government to eliminate the restrictions that result in non-competitive feed costs. (Recommendation 31)

MILK (AND RELATED PRODUCTS)

a) Industry Position

The Milk Producers Association shares the same concerns as the Dairy Farmers of Canada, namely that;

- 1) The federal government must be permitted and must proceed to add to the Import Control List those products whose importation would undermine supply management.*
- 2) Cross border milk purchases by consumers should be dealt with.*

While the Association is uncertain of the impact of the FTA, it finds the de Grandpré Report to show a lack of understanding of supply management systems. The proposed two price system (on what is in reality a more multi-priced system) is considered "unacceptable and simplistic". Moreover, the Association is concerned that the de Grandpré Report would assume the current GATT Panel will rule against the addition of ice cream and yogurt to the ICL.

A specific recommendation to the provincial government is to undertake an assessment of the industry and maintain vigilance regarding federal trade and other policies.

b) Analysis

The importation of milk paks and other dairy products (by consumers crossing borders in New Brunswick) are not "make or break" issues for the Nova Scotia industry, but become significant when combined with other negative trends, including:

- . The likely targeting of Canadian dairy subsidies, import restrictions and exported surpluses in the current MTN.*
- . Pressure for a two price system or import quotas to satisfy food processors.*
- . Slow growth in demand.*

- . A GATT-imposed freeze on price increases set by the federal government.
- . Rapid technological change and increased capitalization.
- . The contentious distribution of Market Sharing Quota (MSQ) among provinces. (Nova Scotia's MSQ, ie. allowable production, is lower than its consumption.)
- . Continuing disadvantageous national policies affecting such areas as feed grain costs.

Should ice cream and yogurt be taken off the ICL, this would have significant market and price implications for Nova Scotia producers. The national dairy industry, however, would still be the predominant supplier of these products to Canadian consumers.

c) Recommendations

The provincial government should closely examine the implications of the above trends and specifically evaluate:

- . the two-price or multi-price system approach
- . various MTN scenarios
- . the loosening of import quotas and embargoes (due to GATT) (Recommendation 32)

The provincial government should aggressively challenge the various restrictions (eg. feed costs, foreign shipping) imposed upon agriculture in Nova Scotia, the easing of which would lower costs and better enable the dairy sector to take pragmatic approaches to any future challenges and to endure any negative shocks in the future. (Recommendation 33)

GREENHOUSE GROWERS

a) Industry Position

The Greenhouse Growers Association cites the following negative free trade issues:

- 1. Loss of seasonal tariffs on tomatoes and cucumbers could result in a 3-4% lower price for Nova Scotia producers.*
- 2. In regard to flower crop production, a possible rise in value of the Canadian dollar would eliminate current advantages. About 20-25% of Ontario production is exported to the U.S.A. Should the currency difference be eliminated, this product may have to be marketed in Canada.*
- 3. Pressure on central Canada markets, both for flowers and vegetables, would result in supplies being switched to Maritime markets.*
- 4. With free trade, there may be the tendency to use non-tariff barriers and harassments such as plant health regulations to restrict the flow of plant material.*

The growers cite higher operating costs in Nova Scotia and the need for:

- 1. Modernization of structures and equipment.*
- 2. More efficient production methods leading to greater productivity per unit of production area.*
- 3. Better training programs for greenhouse workers to improve skills.*

The Association indicated a problem of ineligibility for government programs and assistance such as the ineligibility of most agricultural producers to receive ACOA grants and loan incentives for construction of facilities.

b) Analysis

Technologically, this is a very dynamic sector that has probably achieved 3-4% increases in total factor productivity sector-wide in some recent years (as has its southern field competition).

The 3-4% reduction in tomato and cucumber prices is borne out by a 1986 Greenhouse Vegetable Marketing Study. The associated \$30-45,000 annual loss would be spread over 18 growers but with the greatest impact on the four largest growers.

It is difficult, if not impossible, to predict the effects of rising exchange rates on the internal Canadian market and inter-regional flows.

Non-tariff barriers, if anything, should be less of a problem under the FTA in part because of provisions disallowing technical barriers and the ongoing process to harmonize standards between the two countries.

c) Recommendations

The provincial government should urge ACOA to review its programs and the eligibility status of the various industries in this agricultural sector for assistance to modernize and improve production facilities and methods. Particular attention as well should be given to improving training programs. (Recommendation 34)

CHAPTER 8

SPECIFIC INDUSTRY CONCERNS

INTRODUCTION

In addition to agriculture, there were two sector groups with particular concerns about the impact of the FTA and trade liberalization generally. As a result of the serious and specific nature of these concerns, and the fact that several companies, (including some major employers) are involved, the Council has devoted a chapter to considering their adjustment problems.

The chapter will also briefly touch on the FTA-related problem of duty remissions.

TEXTILE/CLOTHING

Background

The textile, knitting mill and apparel industries, as a group, are major industries in Nova Scotia with eight facilities employing 80 or more people located in seven communities. Truro alone has approximately 1,400 textile/clothing related jobs. These industries represent considerable diversity in terms of products, integration and markets. As a result, attitudes to the FTA vary, with five firms having approached the Council regarding problems and opportunities.

In the changing international market, these industries have undergone an extended period of transition in the face of imports from low cost countries. The global Multifibre Agreement (MFA) has enabled high cost countries, including Canada and the U.S., to control the growth of imports to allow for gradual adjustment and avoid disruptive import surges and fluctuations. The eventual termination of the MFA and the ongoing problem of import penetration by Asian suppliers are presumed to pose a much greater adjustment impact than that arising from a free trade agreement between two relatively high cost countries.

The offshore threat has led the federal, Quebec and Ontario governments to implement specific adjustment programs for these industries in the 1970's and 80's to increase competitiveness and reduce the need for import barriers. Under a five year, \$250m program, the Canadian Industrial Renewal Board (CIRB) provided "viable" firms, from 1981 onwards, with assistance to modernize, restructure and consolidate. The Board's mandate also included the renewal of the economic base of communities heavily dependent on these industries and to help workers affected by change. At least two Nova Scotian firms have benefited from this program. The Quebec Government has assisted a centre whose mandate is to improve and develop the industry's competitiveness by providing manufacturers with advice on marketing and the best ways to improve production efficiency.

The federal Department of Industry, Science and Technology has recently published "industry profiles" of both the textile and clothing industries which discuss their respective competitive positions. The Department had the following comments about textiles:

"Unit labour costs that compare favourably with those in the United States, a rationalized industry structure and plant scales comparable to their U.S. counterparts in some sub-sectors, are the main strengths of the Canadian textile industry. Where weaknesses do exist, they can be found in such areas as high total production costs due to the climate and geography of the country, the small size of the Canadian market, and less than full exploitation of economies of scale owing to over-diversification of product styles. Additional weaknesses include an over-dependence on the Canadian apparel industry, fragmentation in certain sub-sectors and a slow rate of technological advance in others."¹

¹Industry, Science and Technology Canada, Industry Profile: Textiles, 1988, p. 3.

With regard to clothing, "opportunities for significant economies of scale in the industry are limited by the relatively small size of the Canadian market and the high labour intensity of production....Although there are certain scale economies to be gained in the case of standardized products,...the size of operations in Canada is considerably smaller than in the clothing industries of most developed countries (eg. United States) and of many low-cost suppliers....However, the disadvantages of scale are counterbalanced to some extent by the compact size of many firms, which allows for flexibility in serving customer needs....Canadian manufacturers do not appear to be at a competitive disadvantage vis-a-vis the United States with regard to major capital costs or product quality and diversity. Unit labour costs for the apparel industry were about six percent higher in Canada....The availability and price of Canadian-made apparel fabrics have been a problem for the clothing industry. Fabrics account for 35 to 40 percent of the industry's value of shipments....The high tariffs on imported fabrics and yarns result in relatively high costs for Canadian clothing manufacturers....In recent years, more and more firms, particularly the medium-to larger-sized operations, have introduced specialized skills to their management...restructuring themselves to adopt newer technologies and production engineering in order to reduce manufacturing costs...Unfortunately, improvements in the industry's management capabilities often have not stressed the development of a higher degree of sophistication in market identification and development...Many clothing firms are not sufficiently familiar with the techniques of market development and positioning to be able to maximize their market opportunities fully."²

Industry Position

The immediacy of the FTA has raised much concern in the sector. Traditionally high import tariffs have effectively protected many textile and garment product areas in Canada and the U.S. over the years. For many Canadian firms, both large and small, the choices under the FTA include defending the domestic market, entering the U.S. or a combination of both.

²Industry, Science and Technology Canada, Industry Profile: Clothing, 1988, p. 3-4.

Some of the major Nova Scotia manufacturers are worried about their long term competitive position in the Canadian market. The main concern lies with perceived cost disadvantages vis-a-vis the United States, particularly southern competitors. These include:

- . production economies of scale and U.S. surplus capacity*
- . productivity and technological innovation*
- . transportation costs*
- . raw material input costs (due to import duties)*
- . energy costs*
- . taxation and social overhead costs which, in turn, affect labour costs*

On the question of transportation, the cost disadvantages of moving westbound freight from the region are offset by the long-standing Maritime Freight Rate Assistance Act. Federal moves to reduce the level of subsidy have been universally opposed by businesses in the region.

The key factor for viability is clearly productivity and technological innovation. As such, the question does not seem to be one of survival in the near term, but rather one of financial capacity to make the necessary investments over time in plants and equipment.

While vulnerable to competitively priced imports, Nova Scotia firms have not dismissed the possibility of establishing or expanding a toehold in the U.S. market, especially for specialty, value-added products which do not compete head-on with the scale economies of U.S. mills. The obstacle here is the expensive uphill campaign necessary to become established in that very competitive and brand conscious market.

Nova Scotia firms facing a significant adjustment challenge are determined to remain in business and look to government to provide both financial and policy support. Financial support is requested in two main areas:

- 1. Technological upgrading (worth several millions)*
- 2. Marketing assistance (eg. trade shows, U.S. sales offices, market studies, samples and promotional materials)*

Policy support is also sought in two key areas:

- 1. Removal of import duties on raw materials (fibres, yarns, fabrics)*
- 2. Maintenance of regional freight rate subsidies*

Analysis

With regard to the FTA and industry's reaction to it, the Council finds it difficult to judge to what extent Canada and the U.S. costs, or more specifically Maritime and southern U.S. costs, differ and are a burden to local firms. Certainly, the most important issue appears to be the extent to which local firms can continue to make multi-million dollar investments to maintain or improve their competitive positions.

Removal of tariffs on raw material inputs sourced offshore is a contentious issue currently pitting the central Canada textile producers against their clients in garment, furniture and carpet production. At present, the Canadian International Trade Tribunal (CITT) is conducting an inquiry into the question and is scheduled to report by year end, following a series of hearings.

Recommendations

Budgetary cutbacks in ACOA should not be allowed to reduce assistance or make ineligible capital projects and studies required by industries likely to be directly affected by the FTA. (Recommendation 35)

The provincial government should monitor the future situation in the textile/clothing industry and, consistent with the guidelines established in Chapter 5, should consider proposals by firms to improve productivity and take advantage of market opportunities. (Recommendation 36)

The provincial government should closely monitor the Canadian International Trade Tribunal process and assume an advocacy role on imported inputs to ensure Nova Scotia's interests are put forward and recognized. (Recommendation 37)

The provincial and federal government agencies should continue to make the retention of Maritime Freight Rate Assistance a particular development priority. (Recommendation 38)

WINERIES

Background

The international supply of wines and grapes, together with Canada's small domestic market and lack of natural competitive advantages, have combined to make commercial wine production a relatively small scale and sometimes precarious activity.

The fact that provincial governments control and conduct the sale of alcoholic beverages has meant that, in most provinces, various kinds of preferential treatment have been extended to local wineries, breweries and distilleries. In Nova Scotia, local wineries have enjoyed reduced price mark-ups and advantageous shelf/brand listings (relative to other Canadian and imported wines). As in brewing, such provincial practices and restrictions have resulted in the establishment of branch plant commercial wineries which, for the most part, bottle imported wine or wine made from imported concentrates. An industrial profile prepared by the Department of Industry, Science and Technology has concluded the following:

Within the current provincial regulatory environment, the large multi-plant Canadian wine industry has been limited in its ability to rationalize and take advantage of economics of scale and, as a result, Canadian wineries have a lower productivity level than U.S. wineries.

While both European and U.S. vintners have cost advantages over Canadian vintners due to their ability to secure grape supplies at lower prices, they also have marketing advantages which stem from their established reputations and brand recognition.³

³Industry, Science and Technology Canada, Industry Profile: Wineries, 1988.

With the FTA and the 1988 Agreement with the Economic Community, the preferential treatment vis-a-vis major foreign competitors' products will be phased out. In addition, discussions between provincial governments are proceeding on how to reduce interprovincial trade barriers in tandem with fulfilling international market access obligations. The future of small scale, branch plant wineries (Andres, Bright's) is, therefore, uncertain.

Andres was established in Truro in 1965 and employs about 40 people. Bright's has a bottling plant in Dartmouth that has operated since 1985. Grand Pre Wines Ltd. and Jost Vineyards Ltd. are farm wineries established in the early 1980's. Under the provincial government's farm winery policy, they have on-site sales outlets that can sell directly to licensed restaurants and bars and to the public. Grand Master's Wine Agency was set up in 1986 to bottle blended imported wines.

Andres and Brights are considering the establishment of on-site wine sales outlets as approved by the government and allowed under the FTA. Such outlets are common in provinces such as Ontario and provide an opportunity to promote their brands to the general public. If these wineries become involved in grape production, they might be eligible, under certain conditions for the benefits of the Provincial Farm Winery Policy.

Industry Position

Industry spokespersons have pointed to the following impacts of trade liberalization:

- 1) Greater foreign access to the Nova Scotia market*
- 2) Lower retail prices*
- 3) Higher mark-ups on local products*
- 4) Elimination of other preferences*

The commercial wineries have requested the following:

- 1) Annual financial compensation for the loss of preferential mark-ups and lost revenues resulting from higher retail prices.*

- 2) Financial support for the establishment and ongoing operation of wine store outlets.
- 3) Wage compensation, retraining and job placement for laid off workers.
- 4) Increased use of local wines at government functions.

Analysis

The mark-up differential for locally produced or bottled wines has, in effect, constituted a large ongoing subsidy to the commercial wineries, probably worth something less than \$1m annually. The ultimate elimination of this subsidy, due to international trade obligations, will very much affect wine pricing, and thus, the profitability of the mentioned wineries. The long term prognosis is difficult to forecast. Changes made by these wineries to better position themselves, perhaps through their own respective sales outlets or coverage under the Farm Winery or a similar policy, could offset the above problem.

The Council is of the view that it would be unrealistic for the government to artificially maintain this (or any) industry on an indefinite, year to year basis, despite the generous treatment accorded to the wineries over the past several years. The decision to remain in Nova Scotia should be based on factors other than continuing, guaranteed subsidy support designed to replace previous mark-up advantages.

Recommendations

The provincial government should consider establishing a commercial wine policy, consistent with current international agreements, that would give wineries in Nova Scotia greater flexibility in marketing product. Any other support should be based on generally-available programs, and should be consistent with the guidelines specified in Chapter 5. (Recommendation 39)

The provincial government should engage in negotiations on interprovincial trade barriers with the objective of an equitable, reciprocal access situation, either across Canada or within the Atlantic Region. (Recommendation 40)

DUTY REMISSIONS

Background

The Canadian government has refunded customs duties levied on imported products and components when these are incorporated into exported goods. This is called duty drawback or remissions and will be prohibited under the FTA with all existing drawback arrangements being eliminated by 1994.

This FTA requirement will obviously have the greatest impact on smaller exporters who ship a significant portion of their production to the U.S., use imported inputs and cannot obtain suitable or competitively priced North American input replacements.

Industry Position

The fish processors have approached the Council with a concern about their ability to compete in and maintain their American market if they have to pay Canadian import duties on all imported canning metal used for domestic or U.S. bound fish products.

Analysis

It is the Council's view that this is a situation where the FTA has seriously undermined the vital export activities of a particular industry and where remedial steps in the form of selective tariff elimination should be taken to restore their competitive position.

Recommendations

The provincial government should urge the federal government to eliminate duties on specific imported (offshore) inputs, such as canning metal, which are essentially unavailable in Canada, or if produced in Canada,:

- . fail to meet reasonable specifications*
- . are not readily or consistently available*
- . are not competitively priced.*

(Recommendation 41)

APPENDIX A
STAFF OF THE
NOVA SCOTIA ADJUSTMENT ADVISORY COUNCIL

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Daniel F. Potter

Members

Allan C. Shaw
Peter Wile

Secretariat

Greg Bent	-	Principal Advisor
Marg Cartwright	-	Senior Advisor
Meredith Ralston	-	Administrative Advisor and Researcher
Edna Keeble	-	Researcher
Robert Doherty	-	Special Advisor
David Robinson	-	Special Advisor
Pamela Warnell	-	Administrative Assistant
Kelly Melanson	-	Production
Paulette Chiasson	-	Production
Robert Mills	-	Cover Design

APPENDIX B
LIST OF PRESENTATIONS TO COUNCIL

A) ORAL AND/OR WRITTEN PRESENTATIONS

Associations and Organizations

- . *Canadian Manufacturers Association - Nova Scotia Division*
- . *Federation of Agriculture*
- . *Greenhouse Growers Association of Nova Scotia*
- . *Nova Scotia Chicken Marketing Board*
- . *Nova Scotia Egg and Pullet Producers Marketing Board*
- . *Nova Scotia Milk Producers Association*
- . *Nova Scotia Turkey Marketing Board*
- . *Voluntary Planning*

Companies

- . *ACA Cooperative Ltd.*
- . *Aerovox Canada Ltd.*
- . *Andres Wines Atlantic Ltd.*
- . *Britex*
- . *Cameron and Fraser Ltd.*
- . *Crossley Carpets Ltd.*
- . *IMO Foods Ltd. Canada*
- . *Stanfields Ltd.*
- . *T. G. Bright and Co. Ltd.*

Government Officials and Individuals

- . **Thomas Merriam, Department of Industry, Trade and Technology**
- . **Ann Janega, Department of Small Business Development**
- . **Wynne Potter, Atlantic Canada Opportunities Agency**
- . **Germain LaPorte, Employment and Immigration Canada**
- . **Wayne Doggett, Department of Advanced Education and Job Training**
- . **David Robinson, Department of Agriculture**
- . **Elizabeth Mills, Voluntary Planning**
- . **Gordon Cummings, National Sea**

B) WRITTEN OR ORAL COMMUNICATIONS

- . **Creighton's Ltd.**
- . **Huyck Canada Ltd.**
- . **Wearwell Garments**

APPENDIX C
SUMMARY OF FREE TRADE AGREEMENT

INTRODUCTION

The Canada-U.S. Free Trade Agreement (FTA) is broad in scope with elements which touch many sectors and economic activities. Responding to the new circumstances created by this Agreement is a challenge that will be faced throughout the Canadian economy. The purpose of this chapter is to briefly review what has been changed, and to highlight those changes which can or do affect the Nova Scotia economy.

TARIFFS AND RULES OF ORIGIN

The elimination of customs tariffs or duties is the central element of the FTA, and this covers virtually all goods. Approximately 75% of bilateral merchandise trade, currently in excess of U.S. \$120 billion, already moves free of duty between Canada and the United States. Tariffs on remaining goods will be phased out in one of three stages: immediate elimination, five years (five annual steps), ten years (ten annual steps). Import sensitive industries on both sides of the border were generally accorded a ten year phase-out period that would result in a delay of complete duty-free treatment until 1999 (Chart 1).

For Nova Scotia, tariff phase-out effectively means:

- . Market access in the U.S. for processed fish products.*
- . More competition for the Canadian consumer market affecting such products as textiles, clothing, processed foods and household items such as furniture and electrical products.*
- . Little or no change in the trade of resource commodities.*
- . Lower costs for U.S. made equipment and machinery.*

The FTA phase-out of duty drawback and remission/waiver schemes for imported third country products will affect a small number of Nova Scotia firms which now benefit from these. Michelin Tires (Canada) Ltd. is the most notable example with the current waiving of Canadian duties on tire-related imports. Other companies have duty drawback arrangements which have allowed them to acquire inputs from third countries duty-free for re-export to the U.S.

Another tariff-related aspect of the FTA that has relevance for the Nova Scotia economy is the tariff snapback provision for fresh fruits and vegetables. This measure replaces seasonal tariffs and is intended to prevent regional markets and growing seasons in Canada from being disrupted by lower-cost U.S. produce.

The Agreement also provides that duties can be reduced faster whenever the two governments agree. Both governments have received requests from industry in this regard and will enter further negotiations in the fall.

Provisions of the FTA dealing with "rules of origin" specify that only goods originating entirely in Canada or the United States will qualify for the new tariff treatment. Generally, goods incorporating foreign materials or components that have been sufficiently changed to warrant a change in tariff classification will qualify. A special tariff provision for clothing allows for specified amounts of foreign fabrics to be incorporated into clothing that, in turn, will be eligible for duty free treatment in each year.

The rules of origin in the FTA are complicated, and they can have different implications from one industry (or even one product) to another. It is important for companies engaged in trade with the United States to understand the implications of the rules of origin for their activities.

Chart 1 Examples of Tariff Phasing

- Tariffs will be eliminated on the following goods when the Agreement enters into force on January 1, 1989:*

<i>computers</i>	<i>some pork</i>
<i>some unprocessed fish</i>	<i>fur and fur garments</i>
<i>leather</i>	<i>whiskey</i>
<i>yeast</i>	<i>animal feeds</i>
<i>unwrought aluminum</i>	<i>ferro alloys</i>
<i>vending machines and parts</i>	<i>needles</i>
<i>airbrakes for railroad cars</i>	<i>skis</i>
<i>skates</i>	<i>warranty repairs</i>
<i>some papermaking machinery</i>	<i>motorcycles</i>

- For other goods, tariffs will be eliminated in five equal steps, starting on January 1, 1989, for example:*

<i>subway cars</i>	<i>chemicals including resins</i>
<i>printed matter</i>	<i>(excluding drugs and</i>
<i>paper and paper pro</i>	<i>cosmetics)</i>
<i>paints</i>	<i>furniture</i>
<i>explosives</i>	<i>hardwood plywood</i>
<i>aftermarket auto parts</i>	<i>most machinery</i>

- All other tariffs will be eliminated in ten equal annual steps, most starting on January 1, 1989, for example:*

<i>most agricultural products</i>	<i>steel</i>
<i>textiles and apparel</i>	<i>appliances</i>
<i>softwood plywood</i>	<i>pleasure craft</i>
<i>railcars</i>	<i>tires</i>

SOURCE: ISTC, FTA and Industry - An Assessment

WINE

The provincial sale of wine is a well known area covered by the FTA. Provisions require that U.S. wines and spirits be sold by liquor commissions on a non-discriminatory basis with unjustifiable differences in wine mark-ups to be phased out over a six year period. As a result, Nova Scotia commercial wineries will lose over time some shelf price advantages against both U.S. and European brands (the latter due to a 1988 Canada-European Community agreement on trade in alcoholic beverages).

Another provision of the FTA deals with distribution and allows provincial liquor commissions to limit direct retail sale of wine to those outlets located at wineries. This benefits local farm and commercial wineries in that current and planned for on-site sales outlets are provided for in the Agreement.

PROCUREMENT

The FTA provides for Canadian and American suppliers to be treated equally for procurement by various federal departments and agencies. Contracts valued in excess of \$33,000 are covered, although the Agreement excludes provincial/state agencies, crown corporations, contracts directed to small business and defense/national security-related procurement.

Other exclusions of interest to Nova Scotia industry are the Departments of Transportation, Communications and Fisheries and Oceans.

AUTO TRADE

Trading automobiles is the largest item in Canada's trade with the United States, and is covered by a separate agreement. This agreement (The Auto Pact) will remain in effect for existing Canadian firms. The FTA limits the benefits of duty-free entry for third countries to companies which currently qualify or will qualify for Auto Pact status during the 1989 model year.

Stricter new rules of origin for duty free trade in vehicles will apply (50% "North American" content requirement).

Canadian Auto Pact companies, such as Volvo of Halifax, will continue to import vehicles and parts duty free from offshore in return for meeting Auto Pact production safeguards. Also of interest to Nova Scotia is the four year phase-out of Canadian import restrictions on used American cars.

AGRICULTURE

In addition to tariff elimination and the tariff snapback provision mentioned above, there are other FTA provisions on agriculture which are relevant to Nova Scotia.

Both governments will exclude each other from their restrictive meat import laws, and Canadian import licences for wheat, barley and oats will be eliminated once grain subsidy/support levels are equivalent in both countries.

The retention of supply management schemes (representing one-half of Nova Scotia's farm income) is provided for insofar as Canada retains its GATT rights and obligations. So long as there is consistency with GATT rules, nothing prevents the establishment of new marketing boards with associated import restrictions and the addition of products to the Canadian Import Control List. Import quotas on supply managed poultry products (chicken, eggs, turkey), now extended to the U.S., have been increased slightly.

There are a number of agri-food issues that surround the FTA and its aftermath:

- . The effects of reduced market share and its potential impact on revenues for Canadian poultry producers stemming from increased import quotas.*
- . The extent to which imported processed foods can be controlled under GATT so as to protect supply management and domestic processors from cheaper imports.*

- . *The access needed by domestic processors to competitively (U.S.) priced inputs that are supply managed.*
- . *The future effectiveness of the tariff snapback system.*
- . *The future of Nova Scotia grain production when the two-priced system benefiting that industry is phased out.*

How these issues will affect Nova Scotia agricultural producers cannot be accurately predicted at the present time. The Government of Nova Scotia should maintain a watching brief on these issues.

OTHER ELEMENTS

Other potentially significant, but less tangible, elements of the FTA include:

1. *Energy - Most restrictions on energy exports and imports are prohibited.*
2. *Financial Services - Existing market access is preserved and new areas of competition have been opened in securities underwriting and banking.*
3. *Quantitative Restrictions - Except where specifically grandfathered, quantitative import and export restrictions will be eventually eliminated. Notable exemptions are controls on log exports and Canadian legislation that can prohibit the export of unprocessed fish.*
4. *Temporary Entry for Business Persons - FTA provisions simplify cross-border travel for business visitors, professionals, traders and investors, as well as facilitate intra-company transfers.*
5. *Technical Barriers/Standards - The FTA prohibits the use of product standards that cause arbitrary and unjustifiable discrimination between imported and domestic products.*

6. Investment - As a general requirement, national treatment is to be extended in the future to investors of both countries with no imposition of "performance" requirements such as increased exports, local content and sourcing, or import substitution. Governments may still negotiate performance requirements where government incentives and spending are involved.

Existing laws, regulations and published policies are grandfathered in terms of the above FTA obligations. This would include the Canada-Nova Scotia Offshore Agreement that stipulated "Canada benefits" from oil/gas field development and legislation preventing foreign ownership of the fishing industry.

7. Services - For any future legislation applying to services, the FTA provides national treatment (non-discrimination) to specified service businesses and secures their right to have a commercial (sales) presence or establishment in the other country. Existing restrictions on non-nationals are grandfathered.

There are annexes which clarify the application of the services agreement to certain sectors:

Architecture - standards are to be developed to enable architects to work in both countries.

Telecommunications and Computer Services - basic telephone services are protected, although their telecommunications networks must be available to computer services.

Tourism - existing open markets are guaranteed.

8. Dispute Settlement - Dispute settlement panels can be set up to deal with disagreements arising from:

- a) the interpretation and application of the Agreement.
- b) The application of trade remedy laws.

FTA provisions prevent the U.S. from automatically imposing future changes in countervail and anti-dumping laws to Canada. In addition, negotiations are to proceed in order to develop a common understanding on the problems of subsidies, dumping and laws and practices used to counter these. At present, any federal programs that are regionally targetted are liable to U.S. countervail action.

9. Emergency Action - The use of bilateral emergency or safeguard actions, most often in the form of import quotas, to protect domestic industries, is subject to time limits (three years) under the FTA.

Actions taken against a number of countries must exclude the FTA partner if its shipments are not substantial and the cause of injury.